ORIGINAL



Transcript Exhibit(s)

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AZ CORP COMMISSION DOCKET CONTROL

Docket # <u>(</u> s):_	WS-0	9235-13-033	<u> </u>

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Steve Wene, No. 019630 MOYES SELLERS & HENDRICKS LTD. 2 1850 N. Central Avenue, Suite 1100 3 Phoenix, Arizona 85004 (602)-604-2189 4 swene@law-msh.com 5 Attorneys for Utility Source, L.L.C. 6 7 BEFORE THE ARIZONA CORPORATION COMMISSION 8 9 10 **COMMISSIONERS** BOB STUMP, CHAIRMAN 11 **GARY PIERĆE BOB BURNS** 12 SUSAN BITTER SMITH **BRENDA BURNS** 13 14 15 IN THE MATTER OF THE APPLICATION DOCKET NO: WS-04235A-13-0331 OF UTILITY SOURCE, LLC, AN

> REBUTTAL TESTIMONY OF LONNIE McCLEVE

Table of Contents

BASED THEREON.

ARIZONA CORPORATION, FOR A

OF ITS UTILITY PLANTS AND

DETERMINATION OF THE FAIR VALUE

ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE

PROPERTY AND FOR INCREASES IN

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05-31-2007 04:15PM

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

Sewage Treatment Facility CAPACITY ASSURANCE

J:\shared\WEDR\APPLICATIONS-CollectionSystems\Notice Of Intent To Discharge -CAPACITY ASSURANCE for Sewage Treatment Facility 373/06

Instructions: The owner or operator of the downstream sewage treatment facility must complete and submit this Capacity Assurance Form to comply with Arizona Administrative Code (AAC) R18.9-E301(C)(1)

Form to comply with Anzona Administrative Code (AAC) R18-9-E3	n north
1. Sewage Treatment Facility:	2. Owner/Operator for Facility Operation:
Name: Flagstaff Meadows Wastewater Treatment Plant	Name: Lonnie McCleve
APP (Aquifer Protection Permit) Number: P 104083	Position: Waste Water Treatment Plant Owner
AZPDES Permit Number: AZ0024708	Firm Name: Utility Source
ADEQ Site Code: 32797	Address: 721 San Pedro
Address: East 185 off Interstate 40	Gilbert, AZ 85234
Bellemont, AZ 86016	
	Telephone No.(480)892-8756ax No. (480)892-338
Telephone No.(480) 988-2541 Fax No. (480) 988-2541	
3. Facility Capacity:	4. Proposed Subdivision or other project:
Current 208 Plan* Approved Capacity:(MGD)	Name: Flagstaff Meadows, Unit 3, PH I
Constructed Capacity: - 0,137570 (MGD)	Design Flow: 0.03
APP Approved Capacity: 0 1/50 (MGD)	(MGĎ)
AZPDES Discharge Limit: 0,150 (MGD)	Provide list of all previously approved subdivisions, commercial and industrial customers and associated design flows.
and the second	Total Design Flow Connected to Facility: 0.03 (MGD)
*Areawide Wastewater Management Plan, per Section 208 of the Clean Water Act (State only capacity indicated in current approved plan on file with the Designated Management Agency)	
apacity is expressed in million gallons per day (MGD) based on the expressed in MGD based on the maximum monthly average flow for the proposed subdivision as submitted in accordance with AAC R1.	r the last 19 months. Decima Clow is based on the decimation for
5. Facility Plan and Schedule to Construct Additional Capac greater than APP approved capacity)	ity: (Provide detail if total design flow connected to facility is
5. Capacity Assurance: To be completed by owner/operator ide	ntified in Item "2" above.
the sewer collection system serving the proposed subdivision windividual permit to be exceeded. I am aware that there are signermit revocation as well as the possibility of fine and imprison	nificant negalties for submitting false information including
Signeture (I) (I)	5/3//2007
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Please state your name and your role in this matter.

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Lonnie McCleve. I am an owner of Utility Source, LLC ("Company"). I oversee the Company. Typically, the day to day operations are handled by the Company's office manager and system manager, but they keep me informed regarding significant issues. The Company's other owner, Gary Bulechek, will sometimes oversee certain projects and he will keep me informed as to those undertakings as well. I have held this position since

the Company was granted a CC&N in 2005. I have also developed several properties over time, including Flagstaff Meadows, which is served by the Company.

What is the purpose of your testimony? Q.

I am commenting on the non-financial issues raised by Staff and the interveners. I Α. will focus on those issues where the Company has a contrary view to those expressed by Staff or an intervener.

RESPONSE TO CERTAIN STAFF POSITIONS II.

Staff's engineer recommended that the Company finish constructing the block wall around Well 2 and install a functioning gate. Does the Company agree with this recommendation?

The Company understands that it has to have site control of the well and needs to Α. have a fence, wall, or some type of enclosure to keep people away from the well. The Company understands this requirement and agrees to finish the work. However, based on our experience, we know the county may have specific requirements as to what type of structure is built and where it is located. All we ask is that the recommendation be worded so we are required to build a structure that complies with the enclosure rule, but

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27 28 leave some flexibility to enable the Company to build a cost-effective structure.

0. Staff's engineer recommended that the Company adopt five BMPs selected by Staff. Does the Company agree with this recommendation?

- Α. No. The Company understands that the Commission no longer routinely requires BMPs. Our understanding is that BMPs are usually adopted when water loss is high. Here, the Company's water loss is around 5%, which is very good for a small water company. So there is no need for BMPs. Further, if BMPs are required, then the Company should be able to select which ones are most appropriate rather than Staff dictating those to apply.
- Regarding Deep Well 4, Staff recommends that the Company be required to get Commission approval to sell Deep Well 4. Does the Company agree with this recommendation?
- The Company has no intention of selling Deep Well 4, so this is not an issue. Α.
- O. Staff also recommends that the Company cannot require a developer to pay for construction of a new well. Does the Company agree with this recommendation?
- No. Neither the Company nor Staff knows what a developer may plan. A developer may want to construct a planned community where the demand is beyond the current capacity of the Company system. In such a case, it might be prudent to have the developer pay for another well.
- Staff's engineer recommends that the Company repair the wastewater treatment plant mixed media filter. Does the Company agree with this recommendation?
- The Company accepts this recommendation, provided the costs are reasonable. A. which should be less than \$10,000. To be clear, the plant meets the effluent standards for producing irrigation water without this equipment being operational.

Q. Discuss Staff's testimony regarding the standpipe that the Company has built.

A. My partner, Gary Bulechek, was the point person on this project. The Company was selling bulk water from a fire hydrant, primarily to contractors and commercial users. Coconino County staff approached the Company and said it would no longer allow the Company to operate in this manner and would need to build a loading station. Put another way, the Company built the new load station to comply with the County rules and staff comments.

During this time, the Company was making approximately \$3,500 a year from bulk water sales through the hydrant. The Company had no intention of making this an expensive building project. But by the time we hired an engineer, followed his advice, and then had to make multiple improvements demanded by the County, we had spent around \$50,000 and the project was still not complete. Gary and I decided it made economic sense to finish the project so that the costs expended could be recovered over time.

As far as revenues, the Company believes it will generate more revenue than the \$3,500 a year gained from sales through the fire hydrant. How much more is anyone's guess. Staff seems to assert that the Company will sell 200,000 gallons every month, which is very improbable especially during the winter. The 200,000-gallon estimate is the maximum that could be served, not a projection of what will be served. Put another way, it is a peak demand estimate that might occur some year; not a monthly estimate that will occur every year.

Q. Staff recommends the Company file a new rate case with a 2015 test year based upon its belief that the standpipe operation could generate \$52,000 a year. Do you agree with Staff's recommendation?

A. No. First, this rate case will still be ongoing in 2015 and we will not have had time to recover our rate case expense by the time we have to file another case. The new rates will not be in effect for a year by the time we have another test year. Adding the cost of another rate case so soon would be a tremendous burden on the customers. If Staff is concerned about the Company over-earning, then it might be prudent to state that the Company needs to file another rate case if Company revenues exceed the revenue requirement by 10%. But to require a new rate case when we do not know the impact of the fill station seems to build additional cost without a factual basis. My understanding is the Commission usually requires a small water company to file for a rate case once every five years, and we are fine with that approach.

III. FIRE PROTECTION PLANT ISSUES

- Q. The interveners raised concerns regarding fire protection plant inclusion in rate base and reliability. Please comment on those issues.
- A. The Company has 34 fire hydrants. My understanding is that fire hydrants are properly included in rate base. The reliability issues have been resolved. This was confirmed by the local fire chief, who noted that he understood that adequate repairs have been made. See Mark Sachara email dated July 29, 2014 (enclosed in filing by Terry Fallon). In 2011, an electrical issue arose and was repaired in a reasonable time.

 Between 2012 and 2013, there were mechanical issues that required repeated repair. A bolt repeatedly broke, even after upgrading the quality of the bolt twice. After the fourth

bolt, which was custom made with dense material, broke the Company had a machinist mill a retention system and that has solved the issue to date. Please note that the dates provided herein are more accurate than what was previously provided in the response to Nielsen's data request 1.6.

IV. RESPONSE TO NIELSEN ISSUES

Q. Intervenor Nielsen argues that Utility Source is not in compliance with Commission Decision 67446. Do you agree?

A. No. Decision 72261 acknowledged that Staff concluded the Company complied with Decision 67446, ADWR, and ADEQ. The Commission adopted Staff's recommendation and found that the Company was in compliance and the performance bond held to ensure performance was released.

Nielson's primary concern is the ownership of land. Right after Decision 72261 was issued, the Company instructed its attorney and engineer to transfer real property rights at issue to the Company. To secure compliance, the Company filed two deeds and two easements transferring rights to the Company. The Company trusted its consultants to perform the task properly. If there are any discrepancies that were not previously resolved and that exist today, the Company will rectify them. The Company and its owners fully intend to have the Company own the production wells that concern Nielson.

One issue that needs to be addressed is the registration of the wells in the ADWR data base. The Company is aware that several of its wells are still registered under other entities and the Company will rectify this issue as soon as practical.

Q.

 reasons. Please comment on his position.

A. The Company has not requested Deep Well 4 be included in rate base. While Mr.

Intervener Nielsen argues Deep Well 4 should not be in rate base for various

- Bulechek is in charge of this project, my understanding is that new source testing was performed on this well around 2005-06 and the water quality is good. This well is currently offline, but it is our intention to begin using it in the near future. The Company is going to file all finalization documents soon because the intent is to start using this well as a production well for the system.
- Q. Intervener Nielson seems to criticize comments you allegedly made concerning water rates and the development of Flagstaff Meadows Unit III and the proposed Loves Travel Center. Please comment.
- A. I am familiar with the expenses necessary to run these utilities. On several occasions, I have stated publicly that unless the community grows with new customers, utility rates could double. As demonstrated by our rate applications, as well as the analysis by Staff and RUCO, my projection has proven accurate. The Company would like more customers to help spread the cost of operating the utilities.
- Q. Intervener Nielsen alleges either the Company or its ownership has withheld information and documents relating to the period when the utilities were operated by the property owners' association. Please comment.
- A. The allegation is false. We turned over the records to the property owners' association years ago. The issues related to the property owners' association operating the utilities and the rate base has already been addressed by the Commission.
- Q. Nielsen also alleges that the Company has a line extension agreement with Empire Builders. Do you have such an agreement?
- A. No. Nielsen is raising concerns about events that occurred approximately ten

years ago. I do not recall that we executed a line extension agreement. Our attorney who would have addressed this issue is retired and the Empire Builders' project went bankrupt. We reviewed our files and did not find an extension agreement with Empire Builders or any entity associated with the development it proposed. On September 12, 2014, the Company responded to Nielsen's second set of data requests by stating the Company does not have such agreements.

- Q. Nielsen alleges the utilities are overbuilt. Do you agree?
- A. No. I would like to point out that Staff's engineer did not believe the systems are overbuilt either.
- Q. Nielsen alleges no hydrologist was consulted when Deep Wells 1 and 2 were constructed. Is that true?
- A. No. When siting Deep Well 3, however, the hydrologist employed different methods, which worked better.
- Q. Comment on Nielsen's statements that the Company did not respond to his data requests relating to peak daily flows in March of 2012.
- A. The Company staff read the meter. We do not know why the flow was higher that month.
- Q. Does this conclude your rebuttal testimony?
- A. Yes.

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swene@law-msh.com
Attorneys for Utility Source, L.L.C.



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, CHAIRMAN GARY PIERCE BOB BURNS SUSAN BITTER SMITH BRENDA BURNS

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IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO: WS-04235A-13-0331

REJOINDER TESTIMONY OF LONNIE McCLEVE

Q. Please state your name and your role in this matter.

- A. Lonnie McCleve. I am an owner of Utility Source, LLC ("Company").
- Q. Have you filed testimony in this case previously?
- A. Yes.
- Q. Has your testimony changed significantly?
- A. No, and I adopt my earlier testimony herein.
- Q. What is the purpose of your rejoinder testimony?
- A. I am commenting on the non-financial issues raised by Staff and the intervenors in

- Q. Please comment on the surrebuttal testimony of Staff's engineer regarding the enclosure around Well 2 and install a functioning gate.
- A. We seem to agree that the Company should be able to construct a cost-effective enclosure, whether that is a fence or a wall, provided it meets all of the regulatory requirements. Knowing that permitting may be required, which often takes quite some time for approval, the Company believes the deadline for filing proof of construction should be at least 120 days.
- Q. Does the Company agree with Staff's recommendation regarding BMPs?
- A. No. The Company maintains its position on BMPs.
- Q. Regarding Deep Well 4, does the Company agree with this recommendation?
- A. In surrebuttal, Staff explained that it wants the Commission to prohibit Utility

 Source from selling the well at a profit and then requiring a developer to drill another

 well. There is no basis for this concern. Again, the Company has no intention of selling

 Deep Well 4. This well was drilled to serve Flagstaff Meadows III. The Company hopes
 that development occurs and Deep Well 4 is needed to meet the increased water demand.
- Q. Does the Company agree with Staff's position in surrebuttal regarding a developer paying for a new well?
- A. I believe so. Staff's surrebuttal essentially states that the Company can require a developer to pay for the construction of a new well if another well is reasonably necessary to meet water demand. This is consistent with the Company's position.
- Q. Does the Company agree with Staff's position in surrebuttal regarding fire

protection and water pressure?

A. No. Staff wants an engineering report on fire flow pressure during high water demand events, including the demand of the standpipe. Staff bases this recommendation on the fact that between 2011 and 2013, there were a few instances when pressure was not sufficient for fire flow. But the mechanical repairs to the pressure pump have been made, which was confirmed by the local fire chief. Admittedly, when a power outage occurs, the pressure pump will not work. The Company does not think an engineering report is necessary.

Nevertheless, if Staff would agree to increase the monthly minimum rates to cover the cost for the engineering report, then the Company would not oppose the recommendation. The Company does not know at this time how much such a report would cost because it does not know what Staff wants included in the report.

- Q. Discuss Staff's testimony regarding the standpipe that the Company has built.
- A. As stated previously, my partner, Gary Bulechek, was the point person on this project. The Company was selling bulk water from a fire hydrant primarily to contractors and commercial users. Coconino County staff approached the Company and said it would no longer allow the Company to operate in this manner and would need to build a loading station. Put another way, the Company built the new load station to comply with the County rules.

During this time, the Company was earning approximately \$3,500 a year from bulk water sales through the hydrant. The Company had no intention of making this an

expensive building project. But by the time the Company hired an engineer, followed his advice, and then had to make multiple improvements demanded by the County, we had spent around \$50,000 and the project was still not complete. Gary and I decided it made economic sense to finish the project so that the costs expended could be recovered over time. As far as revenues, the Company believes it will generate more revenue than the \$3,500 a year gained from sales through the fire hydrant. How much more is anyone's guess.

- Q. Please comment on Staff's position relating to the new standpipe operations.
- A. First, Staff argues that the Company is "downplaying" the financial impact of the standpipe operation. This is not true. However, the Company does not know how much revenue the standpipe will generate. Further, without any support, Staff claims that all of the revenue from the standpipe operation will flow directly to the owners. This is pure speculation and not even contemplated. The revenues will be treated like all other revenues and will be used to pay the expenses of running the Company.
- Q. When should the Company need to file another rate case?
- A. The Company has not changed its position.
- Q. In his testimony, Nielsen implied that the Company was endangering public health by selling bulk water through a fire hydrant. Is this true?
- A. No. The water being sold was drinking water, sold for construction purposes. I understand this is a common practice throughout Arizona. However, Coconino County requires a standpipe for such water sales.
- Q. Nielsen further claims that the Company built the fill station without ACC

 permission, is that true?

- A. Yes, because ACC permission was not necessary.
- Q. Please comment on Nielsen's surrebuttal testimony relating to the ownership of the fire hydrants, wells, and other plant and records relating to the time when the utilities were operated by the property owners' association.
- A. Nielsen is raising issues that have been established by the Company, reviewed and litigated by Staff, and resolved by previous Commission decisions. To be clear, the Company owns the fire hydrants, the wells, and all of the plant included in its rate base. Admittedly, the Company did need to update the Arizona Department of Water Resources' well registry to show the Company owned the wells, which it has done. See enclosures.

As for the property owners' association records, those documents were turned over to the property owners' association approximately seven years ago. Apparently, Nielsen is attempting to establish that the property owners' association paid for the construction of the utilities, which is not true. In the previous rate case, the rate base for the Company was established and any contributions were identified at that time.

- Q. Please explain what the Company intends to do with Deep Well 4.
- A. Deep Well 4 was constructed to serve Flagstaff Meadows III. The Company intentionally held Deep Well 4 out of rate base for the sake of its customers. The Company intends to bring Deep Well 4 into service soon. This will help alleviate any concerns about the Company's ability to meet peak demands and redundancy.
- Q. Please explain the Company's office situation.

 A. When the Company was first established, the office was in my personal home. The Company paid the electric bill in lieu of rent. This was not a desirable situation, especially as the need for more space grew. While I still have an office in my home, we moved most of the operations to its current office site at 20525 E. Chandler Height in Queen Creek. This office was acquired as part of a development known as The Pecans. Through my business holdings, I am the declarant who controls the office.

This office is situated at the entrance of The Pecans subdivisions, so there is signage about lot sales, realtors, and other postings one would expect to see at a community gate house. Nonetheless, the Company uses the building to conduct business. I also use this address to receive my business mail, rather than having it come to my home address. Moreover, as explained in responses to data requests, we do allow brokers to use the conference room and meet potential buyers at the gate house office. The only expense Utility Source has for the use of this office is that it continues to pay the utility bill at my personal home, which is less than the Company would pay for renting office space and paying its utilities.

- Q. Please comment on Mary Ann Parry's role with the Company.
- A. She works full-time for the Company. Nielsen's claim that performing the office management for two regulated utilities can be done on a part-time basis is simply wrong. Her salary is reasonable for the work she performs.
- Q. What is your opinion regarding Nielsen's proposed adjustments relating to Mrs. Parry's salary, phone service, copiers, office supplies, power bills, and auto expense?

A. The Company's expert Mr. Bourassa presents the Company's position, but I believe Neilsen's adjustments are off-base. Nielsen is basing these adjustments on his opinion and conjecture.

- Q. Does this conclude your rejoinder testimony?
- A. Yes.



Receipt For Request to Change Well Ownership

Reference

Amount

Date

DWR-2589

10/23/2014

\$30.00

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records



Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE \$30.00 per WELL

22N 5E 36 NW SE SW 203 47 New Well Owner FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL UTILITY SOURCE, LLC MAILING ADDRESS 20520 E. Chandler Heights Road CITY/STATE/ZIP	A CONTRACTOR OF STREET
FÜLE NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL UTILITY SOURCE, LLC MAILING ADDRESS 20520 E. Chandler Heights Road CITY/STATE/ZIP	001H
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CITY/STATE/ZIP	
CITY/STATE/ZIP	
QUEEN CREEK, AZ 85142-	·
CONTACT PERSON NAME AND TITLE	
TELEPHONE NUMBER FAX	
(480) 540-5656	
WELL ADDRESS	
MCU CITY	
WELL CITY	
MAJOR CROSS ROADS	
EMAIL	
lonniemccleve@me.com	
State of the state	
By checking this box, I hereby provide ADWR permission to enter the property for the purpos	se of
taking water level measurements at this well.	
I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.	
PREPARED BY DATE	
RACHEL BARRY 10/23/2014	



Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

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FEE \$30.00 per WELL

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QUEEN CR		142-						
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(480) 540-5	356							
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·····							Reference	DWR-2590
							•	
							Amount	\$30.00
							Date	10/24/2014
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Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

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FEE \$30.00 per WELL

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Ionniemccle	ve@me.com	11		· · ·			·····	
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PREPARED BY					DAT	_		
RACHEL BA	NRRY				10	/24/2014		
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							Reference	DWR-2591
							Amount	\$30.00
							Date	10/24/2014
		 						



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FEE \$30.00 per WELL

Balance Control								
Location of		· · ·			stant.			
TOWNSHIP (N/S)	RANGE (EM)	SECTION	160 ACRE	40 ACRE	10 ACRE	воок	MAP	PARCEL
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Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

ADWR to keep its well registration records current and accurate.

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by

Keep this for your records

FEE \$30.00 per WELL

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Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records



Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE \$30.00 per WELL

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Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records



Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

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Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records



Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

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Steve Wene, No. 019630 MOYES SELLERS & HENDRICKS LTD. 1850 N. Central Avenue, Suite 1100 Phoenix, Arizona 85004 (602)-604-2189 swene@law-msh.com

Attorneys for Utility Source, L.L.C.

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DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS BOB STUMP, CHAIRMAN GARY PIERCE BOB BURNS SUSAN BITTER SMITH

BRENDA BURNS

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Arizona Corporation Commission DOCKETED

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IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO: WS-04235A-13-0331

NOTICE OF FILING REBUTTAL **TESTIMONY**

Utility Source, L.L.C. ("Company"), hereby files rebuttal testimonies described

below:

- Rebuttal Testimony of Tom Bourassa regarding Rate Base, Incomes Statement and Rate Design (Attachment 1);
- Rebuttal Testimony of Tom Bourassa regarding Cost of Capital (Attachment 2); and
- Rebuttal Testimony of Lonnie McCleve (Attachment 3).

the Man

1	Original and thirteen (13) copies
2	of the foregoing filed this
_	3rd day of October, 2014 with:
3	
4	Arizona Corporation Commission
5	1200 West Washington Street
	Phoenix, Arizona 85007
6	
7	Copies of the foregoing mailed
8	this 3 rd day of October, 2014 to:
9	Wesley Van Cleve
	Legal Division
10	Arizona Corporation Commission
11	1200 West Washington Street
12	Phoenix, Arizona 85007
13	Daniel W. Pozefsky
14	Chief Counsel
i	Residential Utility Consumer Offic
15	1110 West Washington Street Suite 220
16	Phoenix, Arizona 85007
17	,
	Erik Nielsen
18	4680 N. Alpine Drive
19	P.O. Box 16020\
20	Bellemont, Arizona 86015
21	Terry Fallon
j	4561 Bellemont Springs Drive
22	Bellemont, Arizona 86015
23	,
24	Donnelly Sterbert
25	/
26	
27	

ATTACHMENT 1

1	BEFORE THE ARIZONA CORPORATION COMMISSION
2	
3	BOB STUMP, CHAIRMAN GARY PIERCE
4	BRENDA BURNS SUSAN BITTER SMITH
5	BOB BURNS
6	
7	IN THE MATTER OF THE APPLICATION DOCKET NO: WS-04235A-13-0331
8	OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE
9	OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN
11	ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE
12	BASED THEREON.
13	
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16	REBUTTAL TESTIMONY OF
17	THOMAS J. BOURASSA
18	(RATE BASE, INCOME STATEMENT AND RATE DESIGN)
19	
20	October 3, 2014
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6		A.	Water Division Rate Base	
7			1. Plant-in-service (PIS)	
8			 Accumulated Depreciation (A/D) Contributions-in-aid of Construction (CIAC) 	
9		B.	Wastewater Division Rate Base	
10			1. Plant-in-service (PIS)	
11			 Accumulated Depreciation (A/D) Contributions-in-aid of Construction (CIAC) 	
12			4. Customer Security Deposits	
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18		B.	Wastewater Division	
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ī	1.	INTRODUCTION AND QUALIFICATIONS
2	Q.	PLEASE STATE YOUR NAME AND ADDRESS.
3	A.	My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4		Phoenix, Arizona 85029.
5	Q.	ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?
6	A.	I am testifying in this proceeding on behalf of the applicant, Utility Source, LLC
7		("USLLC" or the "Company"). USLLC is seeking changes in its rates and charges
8		for water utility service in its certificated service area, which area is located in
9	· 	Yavapai County.
10	Q.	HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE
11		INSTANT CASE?
12	A.	Yes, my direct testimony was submitted in support of the initial application in this
13		docket. There were two volumes, one addressing rate base, income statement and
14		rate design, and the other addressing cost of capital.
15	Q.	WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?
16	A.	To respond to the direct filings by Staff and RUCO relating to rate base, income
17		statement and rate design for USLLC. In a second, separate volume of my rebuttal
18		testimony, I present an update to the Company's requested cost of capital as well as
19		provide responses to Staff and RUCO on the cost of capital, the rate of return
20		applied to the fair value rate base, and the determination of operating income.
21	II.	SUMMARY OF USLLC'S REBUTTAL POSITION.
22		
23	Q.	WHAT ARE THE REVENUE INCREASES FOR THE WATER AND
24		WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN
25		THIS REBUTTAL TESTIMONY?
26	Α.	For the water division the Company proposes a total revenue requirement of
		1

\$432,967, which constitutes an increase in revenues of \$226,783, or 109.99 percent over adjusted test year revenues. For the wastewater division, the Company proposes a total revenue requirement of \$328,900 which constitutes an increase in revenues of \$209,436, or 175.31 percent over adjusted test year revenues.

Q. HOW DO THESE COMPARE WITH THE COMPANY'S DIRECT FILING?

A. In the direct filing, the Company requested a total revenue requirement of \$436,451 for the water division, which required an increase in revenues of \$228,447, or 109.83 percent. Also in the direct filing, the Company requested a total revenue requirement of \$318,044 for the wastewater division, which required an increase in revenues of \$196,760, or 162.23 percent.

Q. WHAT'S DIFFERENT?

A. In its rebuttal filing, USLLC has adopted a number of rate base and revenue/expense adjustments recommended by Staff, as well as proposed a number of adjustments of its own based on known and measurable changes to the test year.

For the water division, the net result of these adjustments is the Company's proposed operating expenses have decreased by \$4,200, from \$216,269 in the direct filing to \$212,069; and a net increase of \$8,652 in rate base from the direct filing of \$1,566,542 to \$1,575,194.

For the wastewater division, the net result of these adjustments is the Company's proposed operating expenses have increased by \$9,264, from \$193,541 in the direct filing to \$202,805; and a net decrease of \$5,089 in rate base from the direct filing of \$830,945 to \$825,856.

The Company continues to recommend an 11.0 percent return on equity. Based on a capital structure consisting of 100 percent equity and 0 percent debt, the Company recommends a weighted cost of capital and return on its fair value rate

base ("FVRB") of 11.0 percent. I discuss the Company proposed return on equity, cost of debt, and capital structure in my separate rebuttal cost of capital testimony.

Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE OF THE PROCEEDING?

A. For the water division, the proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	\$436,451	\$228,447	109.83%
Staff	\$406,372	\$200,188	97.09%
RUCO	\$363,609	\$155,605	74.81%
Company Rebuttal	\$432,967	\$226,783	109.99%

For the wastewater division, the proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	\$318,044	\$196,760	162.23%
Staff	\$315,314	\$195,850	163.94%
RUCO	\$285,358	\$164,074	135.28%
Company Rebuttal	\$328,900	\$209,436	175.31%

III. RATE BASE A. Water Division Rate Base Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS FOR THE WATER DIVISION?

A. Yes, for the water division the rate bases proposed by the parties proposing a rate base in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Company-Direct	\$1,566,542	\$1,566,542
Staff	\$1,594,961	\$1,594,961
RUCO	\$1,566,542	\$1,566,542
Company Rebuttal	\$1,575,194	\$1,575,194

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE FOR THE WATER DIVISION?

A. Yes. The Company's rebuttal rate base adjustments to the water division's OCRB are detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.

1. Plant-in-service (PIS)

- Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?
- A. The Company is not proposing any additional adjustments to the water division PIS balance. The Company recommends a PIS balance of \$2,496,640. Staff and RUCO recommend the same PIS balance as the Company.¹

¹ See Staff Water Division Schedule JLK-W3 and RUCO Water Division Schedule JMM-2.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE WATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A.

Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 4.

Adjustment A reflects a correction to the A/D balance for account 311 – Electric Pumping Equipment. The A/D balance was greater than the original cost by \$9,919 and this adjustment corrects the A/D balance to equal the original cost balance. RUCO and Staff do not propose a similar adjustment to correct the A/D balance.

Q. DOES STAFF AND/OR PROPOSE AN ADJUSTMENT TO THE A/D BALANCE?

A. Yes. Staff proposed to reduce the A/D balance by \$49,456 reflecting additional depreciation on Deep Well No. 4.² RUCO does not propose any adjustments to A/D.³

Q. PLEASE RESPOND TO STAFF'S ASSERTION (AT PAGE 8 OF MR. KELLER'S TESTIMONY) THAT THE COMPANY DID NOT SUPPORT THE BASIS OR THE METHOD FOR THE A/D RELATED TO DEEP WELL NUMBER 4.

A. The Company did provide a detailed computation of the A/D related to Deep Well

² See Direct Testimony of Jorn L. Keller ("Keller Dt.") at 8.

³ See Direct Testimony of Jeffery M. Michlk ("Michlik Dt.") at 8.

⁸ See USLLC Water Division Direct Schedule C-2, page 2.

26

Q. IS IT CUSTOMARY TO USE THE COMPOSITE DEPRECIATION RATE USED TO ANNUALIZE THE TEST YEAR DEPRECIATION EXPENSE WHEN RECONSTRUCTING ACCUMULATED AMORTIZATION?

A. No. I have always reconstructed the amortization balance using the composite depreciation rate for each year. In my experience, Staff also uses the composite depreciation rate for each year to compute the amortization for that year. I am somewhat confused by the Staff testimony regarding the Staff testimony given that Staff appears to be deviating from its typical practice regarding CIAC amortization. I am also confused because Staff did not use the amortization rate used in annualizing the wastewater division's depreciation expense to reconstruct the wastewater's accumulated amortization balance.

B. Wastewater Division Rate Base

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS FOR THE WATER DIVISION?

A. Yes, for the water division the rate bases proposed by the parties proposing a rate base in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Company-Direct	\$830,945	\$830,945
Staff	\$825,880	\$825,880
RUCO	\$830,945	\$830,945
Company Rebuttal	\$825,856	\$825,856

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED

⁹ See USLLC Water Division Rebuttal Schedule B-2, page 5.1. The exception is when the CIAC is tracked to a specific plant account(s). Under that circumstance the authorized depreciation rate(s) for the plant account(s) are used.

ORIGINAL COST RATE BASE FOR THE WATER DIVISION?

A. Yes. The Company's rebuttal rate base adjustments to the wastewater division's OCRB are detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.

1. Plant-in-service (PIS)

- Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?
- A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2, consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 3.

Adjustment A reflects a reclassification of \$421 of plant from account 340 – Furniture and Equipment to 340.1 – Computers and Software. The net impact on total PIS is zero. Staff proposed a similar adjustment. RUCO does not propose a similar adjustment.

2. Accumulated Depreciation (A/D)

- Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?
- A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 4.

Adjustment A reflects the adjustment to A/D for additional depreciation of \$28 and it is related to the reclassification of plant as discussed in in B-2

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¹¹ Keller Dt. at 10.

¹² Carlson Dt. at 19.

IV. INCOME STATEMENT

A. Water Division Revenue and Expenses

- Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?
- A. The Company rebuttal adjustments for the water division are detailed on Rebuttal Schedule C-2, pages 1-12. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment number 1 reduces depreciation expense. The rebuttal proposed depreciation expense is lower than the direct filing by \$624. The reduction is due to a correction of the CIAC amortization rate from 2.898 percent to 3.114 percent. In its direct filing, the Company failed to remove the fully depreciated plant associated with account 311 – Electric Pumping Equipment totaling \$158,711 from the computation of the depreciable plant balance used in computing the amortization rate. ¹³

Q. DOES STAFF AND/OR RUCO PROPOSE ADJUSTMENT TO DEPRECIATION EXPENSE?

A. Yes. RUCO proposed the same adjustment to depreciation expense as does the Company.¹⁴ Both the Company and RUCO compute the essentially the same amortization rate (3.114 percent for the Company and 3.11 percent for RUCO).¹⁵ Staff proposed to reduce depreciation expense by \$1,097.¹⁶ However, Staff uses an

¹³ Compare USLLC Water Division Direct Schedule C-2, page2 and USLLC Water Division Rebuttal Schedule C-2, page 2.

¹⁴ Michlik Dt. at 9 and RUCO Water Division Schedule JMM-7.

¹⁵ Compare USLLC Water Division Rebuttal Schedule C-2, page2 and RUCO Water Division Schedule JMM-7.

¹⁶ Keller Dt. at 11.

incorrectly computed amortization rate in in computation of annualized depreciation expense. Staff computes an amortization rate of 3.27 percent¹⁷ which is incorrect because Staff does not recognize only depreciable plant in its computation.

Rebuttal adjustment number 2 reduces property tax expense and reflects the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on the method of computing property taxes. This method utilizes the ADOR formula and inputs two years of adjusted revenues plus one year of proposed revenues. I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate and assessment ratio that was used in the direct filing.

- Q. ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT RATIOS?
- A. Yes. 18
- Q. THANK YOU. PLEASE CONTINUE.
- A. Rebuttal adjustment number 3 increases rate case expense by \$6,667 and reflect a reduction in the number of years to amortize rate case expense. This adjustment adopts the recommendation of Staff. RUCO does not propose a similar adjustment.

Rebuttal adjustment number 4 reduces other water revenues by \$1,850 and reflects the adoption of the Staff recommended adjustment.²⁰ RUCO does not propose a similar adjustment.

¹⁷ See Staff Water Division Schedule JLK-W10.

¹⁸ See USLLC Water Division Rebuttal Schedule C-2, page 3; Staff Water Division Schedule JLK-W15; RUCO Water Division Schedule JMM-8.

¹⁹ Keller Dt. at 14.

²⁰ *Id.* at 11.

Rebuttal adjustment number 5 reduces water testing expense by \$6,637 and reflects the adoption of the Staff recommendation.²¹ RUCO does not propose a similar adjustment.

Rebuttal adjustment number 6 reduces transportation expense by \$1,750 for and reflects the adoption of the Staff recommendation.²² RUCO does not propose a similar adjustment.

Rebuttal adjustment number 7 reduces miscellaneous expense by \$2,366 for telephone related expenses and reflects the adoption of the Staff recommendation.²³ RUCO does not propose a similar adjustment.

Rebuttal adjustments number 8 through 10 are intentionally left blank.

Rebuttal adjustment 11 reflects the changes to income taxes at the Company's rebuttal proposed revenues and expenses.

- Q. DO ALL THE PARTIES RECOGNIZE INCOME TAXES?
- A. No. RUCO does not recognize any income taxes.²⁴
- Q. DOES THE COMMISSION ALLOW RECOVERY OF INCOME TAXES FOR TAX PASS-THROUGH ENTITIES?
- A. Yes.²⁵

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4 22 *Id.* at 13.

²¹ *Id*.

²³ Id. at 14.

25

²⁴ Michlik Dt. at 11.

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²⁵ See Decision 73739, dated February 22, 2013.

B. Wastewater Division Revenue and Expenses

- Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WASTEWATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?
- A. The Company rebuttal adjustments for the wastewater division are detailed on Rebuttal Schedule C-2, pages 1-12. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment number 1 increases depreciation expense by \$48 and reflect the additional depreciation on plant due to the reclassification of plant discussed previously on page 8.

- Q. DOES STAFF AND/OR RUCO PROPOSE ADJUSTMENT TO DEPRECIATION EXPENSE?
- A. Yes. Staff proposes an increase to depreciation expense of \$67.²⁶ The difference between the Company and Staff on depreciation expense is due to a difference in the computation of the amortization rate. However, Staff uses an incorrectly computed amortization rate in in computation of annualized depreciation expense. Staff computes an amortization rate of 3.87 percent²⁷ which is incorrect because Staff does not recognize only depreciable plant in its computation.

Rebuttal adjustment number 2 increases property tax expense and reflects the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on the method of computing property taxes. This method utilizes the ADOR formula and inputs two years of adjusted revenues plus one year of proposed revenues. I computed the property taxes based on the Company's proposed

²⁶ Keller Dt. at 18.

²⁷ See Staff Wastewater Division Schedule JLK-WW12.

revenues, and then used the property tax rate and assessment ratio that was used in the direct filing.

Q. ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT RATIOS?

- A. Yes. 28
- Q. THANK YOU. PLEASE CONTINUE.
- A. Rebuttal adjustment number 3 increases rate case expense by \$6,667 and reflect a reduction in the number of years to amortize rate case expense. This adjustment adopts the recommendation of Staff.²⁹ RUCO does not propose a similar adjustment.

Rebuttal adjustment number 4 reduces other water revenues by \$1,850 and reflects the adoption of the Staff recommended adjustment.³⁰ RUCO does not propose a similar adjustment.

Rebuttal adjustment number 5 reduces water testing expense by \$6,637 and reflects the adoption of the Staff recommendation.³¹ RUCO does not propose a similar adjustment.

Rebuttal adjustment number 6 reduces transportation expense by \$1,750 for and reflects the adoption of the Staff recommendation.³² RUCO does not propose a similar adjustment.

²⁸ See USLLC Wastewater Division Rebuttal Schedule C-2, page 3; Staff Water Division Schedule JLK-WW14; RUCO Wastewater Division Schedule JMM-8.

^{24 | 29} Keller Dt. at 14.

³⁰ *Id.* at 11.

³¹ *Id*.

^{26 | &}lt;sup>32</sup> *Id.* at 13.

	H	· · · · · · · · · · · · · · · · · · ·
1		Rebuttal adjustment number 7 reduces miscellaneous expense by \$2,366 for
2		telephone related expenses and reflects the adoption of the Staff recommendation. ³³
3		RUCO does not propose a similar adjustment.
4		Rebuttal adjustments number 8 through 10 are intentionally left blank.
5		Rebuttal adjustment 11 reflects the changes to income taxes at the
6		Company's rebuttal proposed revenues and expenses.
7	Q.	DO ALL THE PARTIES RECOGNIZE INCOME TAXES?
8	Α.	No. RUCO does not recognize any income taxes. ³⁴
9	Q.	DOES THE COMMISSION ALLOW RECOVERY OF INCOME TAXES
10		FOR TAX PASS-THROUGH ENTITIES?
11	Α.	Yes. ³⁵
12	v.	RATE DESIGN (H SCHEDULES).
13		A. <u>Water Division</u>
14	Q.	WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER
15		SERVICE?
16	Α.	The Company's proposed rates are:
17		MONTHLY SERVICE CHARGES
18		5/8" x 3/4" Meter \$ 40.61
19		3/4" Meter \$ 40.61
20		1" Meter \$ 100.52
21		1 1/2" Meter \$ 203.04
22		2" Meter \$324.86
23		3" Meter \$649.72
24	33	
25	³³ <i>Id</i> . a ³⁴ Micl	hlik Dt. at 11.
~~ #	35 ~	m 11 mana 1 1m1 aaaa

²⁶ See Decision 73739, dated February 22, 2013.

1	4" Meter	\$1.0	15.19
2	6" Meter		30.38
3	Gallons in minimum	Ψ2,0	0
4	COMMODITY RATES		V
5	5/8"X3/4" –Res. & Com	1 to 4,000	\$ 8.25
6		4,001 to 9,000	\$15.75
7		Over 9,000	\$21.75
8	3/4" – Res. & Com.	1 to 4,000	\$ 8.25
9		4,001 to 9,000	\$15.75
10		Over 9,000	\$21.75
11	1" Meter – Res. & Com.	1 to 27,000	\$15.75
12		Over 27,000	\$21.75
13	1 ½" Meter – Res. & Com.	1 to 57,000	\$15.75
14		Over 57,000	\$21.75
15	2" Meter- Res. & Com.	1 to 94,000	\$15.25
16		Over 94,000	\$21.75
17	3" Meter- Res. & Com.	1 to 195,000	\$15.25
18		Over 195,000	\$21.75
19	4" Meter- Res. & Com.	1 to 309,000	\$15.25
20		Over 309,000	\$21.75
21	6" Meter-Res. & Com.	1 to 615,000	\$15.25
22		Over 615,000	\$21.75
23	Irrigation Meters	All gallons	\$15.75
24			
25	Standpipe/Bulk Water	All gallons	\$21.75
26			

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Q. WHAT WILL BE THE 5/8X3/4 INCH RESIDENTIAL CUSTOMER AVERAGE MONTHLY BILL UNDER THE NEW RATES?

- A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 3/4 inch residential customer using an average 4,123 gallons is \$75.54 a \$36.96 increase over the present monthly bill or a 95.81 percent increase.
- Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE DIRECT FILING?
- 10 A. No.
 - Q. PLEASE COMMENT ON THE PROPOSED WATER RATE DESIGN OF STAFF AND RUCO.
 - A. Before I begin, the Staff proposed water rates do not produce the Staff recommended revenue requirement. The revenues produced are about 14,000 short. That said, the Staff rate design will lead to greater amounts of revenue erosion when conservation occurs than the Company's rate design. One reason for this higher revenue instability is that a greater portion the revenue requirement is recovered via the commodity rates under the Staff rate design than the Company rate design. Under the Staff design less than 33 percent of the revenue requirement is recovered from the monthly minimums whereas under the Company's rate design about 40 percent of the revenues are recovered from the monthly minimums. Another reason for the greater revenue stability is that under the Staff rate design more revenues are recovered from the higher commodity rates. About 48 percent of the revenue requirement is recovered from the two highest commodity rates under the Staff rate design while about 38 percent of the revenue requirement is recovered from the two highest commodity rates. When

conservation occurs, the commodity revenues will decrease to a greater extent under the Staff rate design compared to the Company rate design.

Q. WHY IS THAT THE CASE?

- A. When more revenues are expected to be recovered from the commodity rates, a greater amount of revenues are lost. This is because the commodity rates must necessarily be higher when a greater proportion of revenues are recovered from the commodity rates as opposed to the monthly minimums. With each gallon of water being priced at a higher cost, the dollar loss from each gallon lost means more revenues are lost. Additionally, since a much greater portion of the commodity revenues are recovered from the highest priced commodity rates under the Staff rate design than under the Company rate design it translates to more revenue instability.
- Q. WHY DO THESE SCENARIOS INCREASE REVENUE INSTABILITY AND THE RISK OF REVENUE EROSION?
- A. A loss of a gallon of water at the higher commodity rates means more revenue loss than the loss of a gallon of water at the lower commodity rate. The larger water users typically have the greatest amount of discretionary water and the greatest amount of conservation can be expected to occur from these customers as they will see the highest cost commodity rates.
- Q. IF THE GOAL IS TO ACHIEVE CONSERVATION THEN WHY NOT CHARGE THESE CUSTOMERS AS MUCH AS POSSIBLE FOR THEIR WATER USE?
- A. Conservation is not the only goal of a sound rate design. Equally important is ensuring the utility recovers its cost of service (revenue requirement), revenue stability. These two goals must be balanced (along with the goal of avoiding cost

of service inequities).³⁶ The Company's proposed rate design promotes conservation by charging the higher water users more per unit of water than the low water users. The higher cost of water sends a conservation pricing signal to the higher water users. This is consistent with the approach the Commission has taken on rate design for more than a decade now, at least in my experience.

On the other hand, the Company's rate design provides for more revenue stability by providing a better balance of revenue recovery between the monthly minimums and the commodity rates. Further, with respect to the commodity revenues the Company's rate design provides a better balance of revenue recovery across all the commodity rates.

Q. WHAT DO YOU MEAN BY A BETTER BALANCE ACROSS THE COMMODITY RATES?

- A. Balance refers to how evenly the commodity revenue is recovered between the lowest priced commodity rate and the highest priced commodity rates. Setting the higher commodity rates too high and recovering a greater amount of revenue from the higher commodity rates leads to the loss of a greater amount of revenue when conservation occurs.
- Q. DO YOU HAVE SIMILAR REVENUE STABILITY CONCERNS WITH RUCO'S PROPOSED RATE DESIGN?
- A. Yes. RUCO's rate design recovers about 35 percent of revenues from the monthly minimums which is significantly lower than the Company's recovery at about 40 percent. Further, like the Staff rate design, a greater portion of the revenue requirement is recovered from the highest cost commodity rates. RUCO's rate design recovers about 40 percent of revenues from the two highest commodity

³⁶ Principles of Water Rates, Fees, and Charges. AWWA Manual M-1 Sixth Edition, American Water Works Association, p.4.

	1	
1		rates.
2	Q.	HOW DID THE COMPANY DETERMINE THE COMMODITY RATE
3		FOR STANDPIPE WATER AND CONSTRUCTION WATER?
4	A.	The Company followed the typical and customary practice of setting the
5		commodity rate to the highest cost commodity rate. Standpipe and construction
6		water customers do not pay a monthly minimum and purchased small quantities if
7		water which is inefficient and more costly. These customers should pay more for
8		water than a regular customer.
9		1. Other Tariff Changes.
10	Q.	IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND
11		STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE
12		INSTALLATION CHARGES?
13	A.	No. The Company and Staff are in agreement.
14	Q.	IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND
15		STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS
16		CHARGES?
17	A.	No.
18		B. <u>Wastewater Division</u>
19		
20	Q.	WHAT ARE THE COMPANY'S PROPOSED RATES FOR
21		WASTEWATER SERVICE?
22	A.	The Company's proposed rates are:
23		MONTHLY CHARGE
24		5/8" x 3/4" Meter \$ 53.00
25		3/4" Meter \$ 53.00
26		1" Meter \$132.50
- 1	l	

	K .		
1		1 1/2" Meter	\$265.00
2		2" Meter	\$424.00
3		3" Meter	\$848.00
4		4" Meter	\$1,325.00
5		6" Meter	\$2,650.00
6			
7		Rate per 1,000 gallons of water use:	
8		Residential	\$ 5.31
9		Car washes, laundromats, commercial, manufacturing	\$ 5.20
10		Hotels and motels	\$ 6.97
11		Restaurants	\$ 8.61
12		Industrial Laundries	\$ 7.63
13		Waste Haulers	\$155.79
14		Restaurant Grease	\$136.32
15		Treatment Plant Sludge	\$155.79
16		Treatment Plant Sludge	\$486.85
17			
18	Q.	WHAT WILL BE THE 3/4 INCH RESIDENTIAL CUST	OMER AVERAGE
19		MONTHLY BILL UNDER THE NEW RATES?	
20	A.	As shown on Schedule H-2, page 1, the average monthly bill	under proposed rates
21		for a 3/4 inch residential customer using an average 4,123	gallons is \$74.91 - a
22		\$50.83 increase over the present monthly bill or a 211.13% inc	crease.
23	Q.	HAVE YOU MADE ANY CHANGES TO THE RATE DE	SIGN?
24	A.	No.	
25			
26	Q.	PLEASE COMMENT ON THE PROPOSED WAS	TEWATER RATE

DESIGN OF STAFF AND RUCO.

A. The Staff proposed wastewater rate design does not include a usage charge for residential customers. Further, the usage charge for other classes of customers is \$11.28. The Company disagrees with the Staff rate design because it does not distinguish between those customers who place more demands on the wastewater system because they use more water and/or because their wastewater is more costly to treat.

The RUCO proposed wastewater rate design does not include any monthly minimums. All of the wastewater revenues are recovered via usage charges. The Company disagrees with the RUCO rate design because it leads to higher revenue instability and can lead to wide fluctuations in monthly revenues (seasonality).

O. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

REBUTTAL SCHEDULES WATER DIVISION

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Computation of Increase in Gross Revenue Requirements As Adjusted

Exhibit Rebuttal Schedule A-1 Page 1 Witness: Bourassa

Line									
<u>No.</u>	e ·								
1 2	Fair Value F	Rate Base					\$	1,575,194	
3	Adjusted On	perating Income						(E 005)	
4	Adjusted Op	erating income						(5,885)	
5	Current Rate	e of Return						-0.37%	
6								-0.57 70	
7	Required Op	perating Income					\$	173,271	
8							•	,	
9	Required Ra	ate of Return						11.00%	
10									
11	Operating In	come Deficiency					\$	179,157	
12 13	Cross Davis	nun Comunica Footo-							
14	Gross Rever	nue Conversion Factor						1.2658	
15	Increase in (Gross Revenue							
16	Requireme						\$	200 700	
17	· · · · · · · · · · · · · · · · · · ·	,,,					Ð	226,783	
18	Adjusted Tes	st Year Revenues					\$	206,184	
19		Gross Revenue Revenue Requirement					\$	226,783	
20		evenue Requirement					\$	432,967	
21	% Increase						·	109.99%	
22									
23	Customer			Present		Proposed		Dollar	Percent
24	Classification			Rates		<u>Rates</u>		<u>Increase</u>	<u>Increase</u>
25	3/4 Inch	Residential	\$	159,301	\$	327,130	\$	167,829	105.35%
26	3/4 Inch	Commercial		322		811		490	152.32%
27 28	2 Inch	Commercial		38,120		89,877		51,757	135.78%
20 29	2 Inch	Irrigation		1,776		3,898		2,122	119.50%
30	Bulk/Constru	ction		3,482		7 220		2.050	440 740/
31	Duild Constitu	Clion		3,462		7,339		3,856	110.74%
32	Revenue Ann	nualization		328		634		306	93.31%
33	Subtotal		\$	203,328	\$	429.689	\$	226,361	111.33%
34			•	~55,520	*		Ψ	220,001	111.3370
35	Other Water	Revenues		3,441		3,441		-	0.00%
36	Reconciling A	Amount		(585)		(163)		422	-72.14%
37									0.00%
38 30	Total of Wat	er Revenues	\$	206,184	\$	432,967	\$	226,783	109.99%

40 41 42 SUPPORTING SCHEDULES:

B-1

39

43 C-1

44 C-3

45 H-1

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Summary of Rate Base

Exhibit Rebuttal Schedule B-1 Page 1 Witness: Bourassa

Line No.		riginal Cost Rate base	air Value late Base
1 2 3	Gross Utility Plant in Service Less: Accumulated Depreciation	\$ 2,496,640 716,486	\$ 2,496,640 716,486
4 5	Net Utility Plant in Service	\$ 1,780,154	\$ 1,780,154
6 7	Less:		
8 9	Advances in Aid of Construction	-	-
10 11	Contributions in Aid of Construction	294,745	294,745
12 13	Accumulated Amortization of CIAC	(95,670)	(95,670)
14 15 16 17	Customer Meter Deposits Deferred Income Taxes & Credits	5,885 -	5,885
18 19 20 21 22 23 24 25 26	Plus: Unamortized Finance Charges Prepayments Materials and Supplies Allowance for Working Capital	- - -	- - -
27 28 29 30 31 32 33 34 35 36 37 38 39 40 41	Total Rate Base	\$ 1,575,194	\$ 1,575,194
42 43 44 45 46 47 48 49 50 51	SUPPORTING SCHEDULES: B-2 B-3 B-5 E-1		

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments

Exhibit Rebuttal Schedule B-2 Page 1 Witness: Bourassa

Line No. 1 2 3 4 5 6	Gross Utility Plant in Service Less: Accumulated Depreciation	\$ Adjusted at end of Test Year 2,496,640	Proforma <u>Adjustment</u> - (9,919)	\$	Rebuttal Adjusted at end of Test Year 2,496,640
7 8 9 10 11	Net Utility Plant in Service	\$ 1,770,234	(6,5.6)	\$	1,780,154
12 13 14 15	Less: Advances in Aid of Construction	-	• •		-
16 17 18	Contributions in Aid of Construction - Gross	294,745	-		294,745
19 20	Accumulated Amortization of CIAC	(96,938)	1,267		(95,670)
21 22 23 24 25	Customer Meter Deposits Accumulated Deferred Income Tax	5,885 -	- 0		5,885 - - -
26 27	Plus:				
28	Unamortized Finance Charges				
29	Prepayments	-	-		-
30	Materials and Supplies	_	. <u>-</u>		-
31 32	Working capital	-	-		-
33 34	Total	\$ 1,566,542		\$	1,575,194
35		 1,000,012		<u> </u>	1,575, 194
36					
37					
38 39					
40					
41					
42					
43					
44 45	SUPPORTING SCHEDULES:				
46	B-2, pages 2		<u>REC/</u> B-1	AP SCI	HEDULES:
47	E-1		D-1		
48					
49					
50					

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments

Exhibit Rebuttal Schedule B-2 Page 2 Witness: Bourassa

			Adjusted		1		_ <u>Pro</u>	of <u>or</u>	ma Adjustme 3	ents	4			5			Rebutal Adjusted
			at end						-		Custor		þr	ntention	ally		at end
Line			of		Plant-in-		cumulated				Secur			Left			of
<u>No.</u> 1	Gross Utility		Test Year		Service	Ų	epreciation		CIAC		Depos	<u>ets</u>		Blank			Test Year
2	Plant in Service	s	2,496,640		_											s	2,496,640
3	CIBIN NI SELVICE	•	2,480,040		•											J	2,450,040
4	Less:																
5	Accumulated																
6	Depreciation		726,406				(9,919)										716.486
7												_	_	_			
8																	
9	Net Utility Plant																
10	in Service	\$	1,770,234	\$	•	\$	9,919	\$	•	\$		-	\$		-	\$	1,780,154
11	•																
12 13	Less: Advances in Aid of																
14	Construction																
15	Caristiactori		-														•
16	Contributions in Aid of																
17	Construction (CIAC)		294,745														294,745
18																	204,140
19	Accumulated Amort of CIAC		(96,938)						1,267								(95,670)
20	•								****								(
21	Customer Meter Deposits		5,885														5,885
22	Accumulated Deferred Income Taxes		-														· -
23																	
24																	
25	Plus:																
26	Unamortized Finance																
27	Charges		-														-
28	Prepayments		-														-
29	Materials and Supplies		-														•
30 31	Allowance for Cash Working Capital		•						-								-
31	Total	\$	1,566,542			\$	9,919	-	(1,267)	-		_	\$			5	1,575,194
33	· Ota		1,300,342	*		_*_	3,319	-	(1,20/)	*			<u>, </u>		<u> </u>	-	1,5/5,194

SUPPORTING SCHEDULES: 8-2, pages 3-5 E-1

RECAP SCHEDULES: B-1

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 1

Exhibit Rebuttal Schedule B-2 Page 3 Witness: Bourassa

Line				Plant-in-Service					
No.									
1				Δ		Adjustments	_		
2				۵	₽	<u>c</u>	<u>D</u>	<u>E</u>	
3			Adjusted	Adjustments	Intentionally	Intentionally	intention of		Rebuttal
4	Acct		Original	to Reconcile Plant	Left	Left	intentionally Left	Intentionally	Adjusted
5	No.	Description	Cost	to Reconstruction	Blank	Blank	Blank	Left Blank	Original
6	301				- Autoric	<u> Diam</u>	Diank	DIANK	Cost
7	302		•	•					-
8	303	and and and the state of the st	210,000						210.000
9	304		72,997						72,997
10 11	305 306		•	•					,1,55,
12	307	Lake River and Other Intakes Wells and Springs		-					-
13	308	Infiltration Galleries and Tunnels	1,353,539	•					1,353,539
14	309		•	-					•
15	310	Power Generation Equipment	89.125	-					•
16	311	Electric Pumping Equipment	158,711	•					89,125
17	320	Water Treatment Equipment	5,487	•					158,711
18	320.1		2,401	•					5,487
19		Chemical Solution Feeders	•	•					•
20	330	Dist. Reservoirs & Standpipe	321,452	•					-
21	330.1								321,452
22	330.2	Pressure Tanks	-						-
23	331	Trans, and Dist. Mains	161,632						161.632
24	333	Services	86,250	-					86,250
25	334	Melers		•					00,230
26	335	Hydrants	34,500						34,500
27	336	Backflow Prevention Devices	-	-					04,000
28 29	339 340	Other Plant and Misc. Equip.		-					
30		Office Furniture and Fixtures	2,947	•					2,947
31	340.1	Computers and Software Transportation Equipment	•	•					
32	342	Stores Equipment	•	•					
33	343	Tools and Work Equipment	•	-					
34	344	Laboratory Equipment	-	•					-
35	345	Power Operated Equipment	•	•					-
36	346	Communications Equipment	-	•					•
37	347	Miscellaneous Equipment							•
38	348	Other Tangible Plant							•
39		Plant Held for Future Use							•
40		TOTALS	\$ 2,496,640	\$. 5	*	\$ - :	· · · · · ·	\$ -	\$ 2 496 640
41				•		•		• -	2,496,640
	Plant-in-	Service per Books							2,496,640
43									2,480,040
44 45	Increase	(decrease) in Plant-in-Service							s .
	Adiustm	ent to Plant-in-Service						_	·
47	- wjustili	en to Fierraportice						_3	
	SUPPO	RTING SCHEDULES						_	
49	B-2, pag	es 3.1							
50	, _, _,								

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 1 - A

Exhibit Rebuttal Schedule B-2 Page 3.1 Witness: Bourassa

Line							
<u>No.</u>	_						
1	Recond	iliation to Reconstructed Plant-in-Ser	<u>vice</u>				
2			0	D			
3 4	Acct.		Recorded	Removed	Adjusted	Plant	
		6 =4=4=.	Orginal	Deep Well #4	Original	Per	
5	No.	Description	Cost	Costs	Cost	Reconstruction	Difference
6	301	Organization Cost	-		-	-	-
7	302	Franchise Cost					-
8	303	Land and Land Rights	210,000		210,000	210,000	-
9	304	Structures and Improvements	81,748	(8.751)	72,997	72,997	-
10	305	Collecting and Impounding Res.	•			•	•
11	306	Lake River and Other Intakes	•		•	-	-
12	307	Wells and Springs	2,831,962	(1,478,423)	1,353,539	1,353,539	-
13	308	Infiltration Galleries and Tunnels	•		•	-	•
14	309	Supply Mains	•		-	-	-
15	310	Power Generation Equipment	89,125	(1,725)	87,400	87,400	-
16	311	Electric Pumping Equipment	158,711		158,711	158,711	-
17	320	Water Treatmen t Equipment	5,487		5,487	5,487	-
18	320.1		•		•	•	-
19		Chemical Solution Feeders	-		-	•	-
20	330	Dist. Reservoirs & Standpipe	321,452		321,452	321,452	-
21	330.1	Storage tanks	-		-	-	-
22	330.2	Pressure Tanks	•		-	•	-
23	331	Trans. and Dist. Mains	161,632		161,632	161,632	-
24	333	Services	86,250		86,250	86,250	-
25	334	Meters	-		•	•	-
26	335	Hydrants	34,500		34,500	34,500	-
27	336	Backflow Prevention Devices	-		-		
28	339	Other Plant and Misc. Equip.	-		-	-	-
29	340	Office Furniture and Fixtures	4,672		4,672	4,672	
30	340.1	Computers and Software	-		-	-	
31	341	Transportation Equipment	-		-		-
32	342	Stores Equipment	-		-		-
33	343	Tools and Work Equipment	-		-	-	
34	344	Laboratory Equipment				-	-
35	345	Power Operated Equipment	-		-	-	-
36	346	Communications Equipment			-	-	-
37	347	Miscellaneous Equipment	-		-	-	-
38	348	Other Tangible Plant	•		•	-	-
39		Plant Held for Future Use					
40		TOTALS	\$ 3,985,539	\$ (1,488,899) \$	2,496,640	\$ 2,496,640	\$ -

41 42 43 <u>SUPPORTING SCHEDULE</u> 44 B-2, pages 3.2 - 3.8 45

				Per Decision	n 70140					2006				
	NARUC		Allowed		Accum.	Plant		Adjusted	Plant	Adjusted				
Line	Account	1	Deprec,	Plant at	Deprec. At	Additions	Plant	Plant	Retirements	Plant	Salvage	Depreciation	Plant	Accum,
No.	No.	<u>Description</u>	Rate	12/31/2005	12/31/2005	(Per Books)	Adiumtmenta	Additions	(Per Books)	Retirements	A/D.Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%							_		_	_	
2	302	Franchise Cost	0.00%					-						_
3	303	Land and Land Rights	0.00%	210,000	-								210,000	_
4	304	Structures & Improvements	3.33%	72,997	3,646	1				-		2.431	72,997	6,077
5	305	Collecting & Impounding Reservoirs	2.50%		-	{				-				-,-,
6	306	Lake, River, Canal Intakes	2.50%	-						-			_	
7	307	Wells & Springs	3.33%	2,071,821	103,487]						68,992	2,071,821	172,479
8	308	Infiltration Galleries	6.67%			1				_			-	-
9	309	Raw Water Supply Mains	2,00%	_		f				-			-	-
10	310	Power Generation Equipment	5.00%	87,400	6.555					-		4,370	87,400	10,925
11	311	Pumping Equipment	12.50%	158,711	29,758	l		-		-		19,839	158,711	49,597
12	320	Water Treatment Equipment	3.33%	5,487	274	1		-				163	5,487	457
13	320.1	Water Treatment Plants	3.33%			1						_	-	-
14	320.2	Solution Chemical Feeders	20.00%			1		-				-	_	
15	330	Distribution Reservoirs & Standpipes	2.22%	321,452	10.704	ł		-				7.136	321,452	17,841
16	330,1	Storage Tanks	2.22%							-				
17	330.2	Pressure Tanks	5.00%									-		
18	331	Transmission & Distribution Mains	2.00%	147,200	4,416					-		2.944	147,200	7,380
19	333	Services	3.33%	86,250	4,308							2,872	86,250	7,180
20	334	Meters	8.33%	-				-		-		-		
21	335	Hydrants	2.00%	34,500	1,035							690	34,500	1,725
22	336	Backflow Prevention Devices	6.67%		-					-		-		
23	339	Other Plant & Misc Equipment	6.67%	-						-				
24	340	Office Furniture & Equipment	6.67%	-	- 1			-						_
25	340.1	Computers & Software	20.00%					•						
26	341	Transportation Equipment	20,00%					-		-			-	
27	342	Stores Equipment	4.00%	-				-				-		
28	343	Tools, Shop & Garage Equipment	5,00%		- 1					-		-		
29	344	Laboratory Equipment	10.00%	-	- 1					-		-		
30	345	Power Operated Equipment	5.00%		- 1							-		
31	346	Communication Equipment	10.00%		-]			-				-	-	
32	347	Miscellaneous Equipment	10.00%	-	- 1			-				-		
33	348	Other Tangible Plent	10.00%		.									-
34		Plant Held for Future Use			- 1					-			•	
35			L		i									
36		TOTALS		3,195,818	164,165			-		-	-	109,456	3,195,818	273.641

Utility Source, ELC - Water Division Plant Additions and Referements

Exhibit Rebuttal Schedule B-2 Page 3,3 Witness: Bourassa

_								2007				
	NARUC		Allowed	Plant		Adjusted	Plant	Adjusted				
Line	Account		Deprec,	Additions	Plant	Plant	Retirements	Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adkustments	Additions	(Per Books)	Retirements	AAD ONN	(Calculated)	Batence	Danies.
,	301	Organization Cost	0.00%									
2	302	Franchise Cost	0.00%			-		-				_
3	303	Land and Land Rights	0.00%			-		•		-	210,000	
4	304	Structures & Improvements	3.33%					-		2,431	72,997	8,508
5	305	Collecting & Impounding Reservoirs	2.50%			-				•		-
6	306	Lake, River, Canal Intakes	2.50%			-		-		-	_	-
7	307	Wells & Springs	3.33%			-		-		68,992	2.071.821	241,471
8	306	Infiltration Galleries	6.67%					-		•	-	
9	309	Raw Water Supply Mains	2.00%			-		-		-	_	-
10	310	Power Generation Equipment	5,00%			-		-		4.370	87.400	15 295
7.1	311	Pumping Equipment	12.50%	l		-				19.639	158,711	69,436
12	320	Water Treatment Equipment	3.33%			-		-		183	5.487	640
13	320.1	Water Treatment Plants	3,33%			-				-	•	•
14	320.2	Solution Chemical Feeders	20.00%			-		_				
15	330	Distribution Reservoirs & Standpipes	2.22%			-				7,136	321,452	24,977
16	330.1	Storage Tanks	2.22%					-				
17	330.2	Pressure Tanks	5,00%					_				
16	331	Transmission & Distribution Mains	2.00%			-				2,944	147,200	10.304
19	333	Services ·	3.33%			-		-		2,872	86,250	10.052
20	334	Meters	8.33%			-				-,		
21	335	Hydrants	2.00%							690	34,500	2,415
22	336	Backflow Prevention Devices	6.67%							-		-
23	339	Other Plant & Misc Equipment	6.67%								-	-
24	340	Office Furniture & Equipment	6.67%			-				-		
25	340,1	Computers & Software	20.00%					-				
26	341	Transportation Equipment	20.00%			-				_	-	_
27	342	Stores Equipment	4,00%							-	-	
26	343	Tools, Shop & Garage Equipment	5,00%			-					_	
29	344	Laboratory Equipment	10.00%			-						
30	345	Power Operated Equipment	5.00%					-				
31	346	Communication Equipment	10,00%							-		
32	347	Miscellaneous Equipment	10,00%			-		-		-		
33	348	Other Tangible Plant	10.00%					-		_		
34		Plant Held for Future Use				-						
35			Į.									
36		TOTALS	ì	•						109,456	3,195,818	383.097

								2008				
	NARUC		Allowed	Plant		Adjusted	Plant	Adjusted				
Line	Account		Deprec.	Additions	Plant	Plant	Retirements	Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Retirements	A/D Only	(Calculated)	Balance	Deprec.
,	301	Organization Cost	0.00%									
2	302	Franchise Cost	0.00%									
3	303	Land and Land Rights	0.00%								210,000	
4	304	Structures & Improvements	3.33%	6.251		6,251				2,535	79.248	11,043
5	305	Collecting & Impounding Reservoirs	2,50%							-		
6	306	Lake River Canal Intakes	2.50%									-
7	307	Wells & Springs	3.33%							68,992	2.071,821	310,462
8	308	Infiltration Galleties	6.67%									-
9	309	Raw Water Supply Mains	2.00%									-
10	310	Power Generation Equipment	5.00%	1 725		1,725				4,413	89 125	19.708
1.1	311	Pumping Equipment	12.50%							19,839	158.711	89,275
12	320	Water Treatment Equipment	3.33%							183	5.487	822
13	320.1	Water Treatment Plants	3.33%							-		
14	320.2	Solution Chemical Feeders	20.00%			-				_		-
15	330	Distribution Reservoirs & Standpipes	2.22%			_				7.136	321,452	32,113
16	330.1	Storage Tanks	2.22%			-		-				
17	330.2	Pressure Tanks	5.00%			-		-		_		
18	331	Transmission & Distribution Mains	2.00%			-		-		2,944	147,200	13,248
19	333	Services	3.33%			-		-		2,872	86,250	12,925
20	334	Meters	8.33%			-		-		-	•	
21	335	Hydrents	2,00%					_		690	34,500	3,105
22	336	Backflow Prevention Davices	6.67%			-						-,
23	339	Other Plent & Misc Equipment	6.87%							_		
24	340	Office Furniture & Equipment	6,67%	2,552		2,552		-		85	2,552	85
26	340.1	Computers & Software	20.00%			-		-		-		
26	341	Transportation Equipment	20.00%					-		-		
27	342	Stores Equipment	4.00%					-		-	-	
26	343	Tools, Shop & Garage Equipment	5.00%			-		-				-
29	344	Laboratory Equipment	10.00%					-		-		
30	345	Power Operated Equipment	5.00%			-						
31	346	Communication Equipment	10,00%			-		-			_	
32	347	Miscellaneous Equipment	10,00%							-		
33	348	Other Tangible Plant	10.00%					-			-	
34		Plant Held for Future Use	1									-
36												
36		TOTALS	T I	10,528	-	10,528		-		109,689	3.206.346	492,768

				I		-		2	909				
	NARUC		Allowed	Plant		Adjusted	Plant		Adjusted				
Line	Account		Deprec,	Additions	Plant	Plant	Retirements	Retirement	Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adiustments 1	Additions	(Per Books)	Adjustments	Retiremente	A/D Only	(Celsulated)	Balance	Deprec.
,	301	Organization Cost	0.00%								-		
2	302	Franchise Cost	0.00%	}					-				-
3	303	Land and Land Rights	0.00%	i								210,000	
4	304	Structures & Improvements	3.33%	i							2,639	79,248	13,682
5	305	Collecting & Impounding Reservoirs	2.50%	ł					-				-
6	306	Lake, River, Canal Intekes	2.50%	f		-						-	-
7	307	Wells & Springs	3.33%	753,141		753,141			-		81,531	2,824,962	391,994
6	306	Infiltration Galleries	6.67%			•			-			-	
9	309	Raw Water Supply Mains	2.00%						-			-	
10	310	Power Generation Equipment	5.00%						-		4,456	69,125	24,164
11	311	Pumping Equipment	12.50%						-		19,839	158,711	109,114
12	320	Water Treatment Equipment	3.33%								183	5,487	1,005
13	320.1	Water Treatment Plants	3.33%									-	-
14	320.2	Solution Chemical Feeders	20.00%			-					-		-
15	330	Distribution Reservoirs & Standpipes	2.22%			-					7,136	321,452	39,249
16	330.1	Storage Tanks	2,22%										
17	330.2	Pressure Tanks	5.00%						_			-	
18	331	Transmission & Distribution Mains	2.00%						-		2,944	147,200	16,192
19	333	Services	3,33%						-		2,872	86,250	15,797
20	334	Meters	8.33%			-			-				
21	335	Hydrants	2.00%			-			-		690	34,500	3,796
22	336	Backflow Prevention Devices	6.67%			-			-			_	
23	339	Other Plant & Misc Equipment	6.67%										-
24	340	Office Furniture & Equipment	6.67%								170	2,552	255
25	340.1	Computers & Software	20.00%										-
26	341	Transportation Equipment	20.00%										
27	342	Stores Equipment	4.00%										
28	343	Tools, Shop & Gerage Equipment	5.00%									-	
29	344	Laboratory Equipment	10.00%										_
30	345	Power Operated Equipment	5.00%			-			٠				
31	346	Communication Equipment	10.00%			-			-				
32		Miscellaneous Equipment	10,00%			-							
33		Other Yangible Plant	10.00%			_							
34		Plant Held for Future Use	1								-	-	
35		1	i										-
36		TOTALS	ı	753,141		753,141					122,461	3,959,487	615,247

Utility Source, LLC - Water Division Plant Additions and Retirements

Exhibit Rebuttel Schedule B-2 Page 3.6 Witness: Boursess

				 				20	110				
	NARUC		Allowed	Plant		Adjusted	Plant	_	Adjusted				
Lme	Account		Deprec.	Additions.	Plant	Plant	Retirements	Retirement	Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adkatments	Retrementa	A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%	1		_					-		
2	302	Franchise Cost	0.00%								-	-	-
3	303	Land and Land Rights	0.00%	Į.							-	210,000	
4	304	Structures & Improvements	3,33%	Ī							2,639	79,248	16,32
5	305	Collecting & Impounding Reservoirs	2.50%	ŀ							-		
6	306	Lake, River, Canal Intakes	2.50%						-		-	-	
7	307	Welle & Springs	3.33%	i .					-		94,071	2,824,962	486,06
0	306	Infiltration Galleries	5.67%	f									
9	309	Raw Water Supply Mains	2.00%								-		-
10	310	Power Generation Equipment	5,00%						-		4,456	89,125	28,62
11	311	Pumping Equipment	12,50%						-		19,839	158,711	128,95
12	320	Water Treatment Equipment	3.33%						-		183	5,487	1,18
13	320.1	Water Treatment Plants	3.33%			•					-	-	
14	320.2	Solution Chemical Feeders	20,00%			-			-		-	-	
15	330	Distribution Reservoirs & Standpipes	2,22%			-					7,136	321,452	45,38
16	330,1	Storage Yanks	2.22%								-	-	-
17	330.2	Pressure Tenks	5.00%						-		-		
18	331	Transmission & Distribution Mains	2.00%			•			-		2,944	147,200	19,13
19	333	Services	3.33%			•			•		2,872	86,250	18.66
20		Meters	8.33%			-			-		-	-	
21	335	Hydrante	2.00%	ĺ		-			-		690	34.500	4.48
22	336	Backflow Prevention Devices	8.67%						-		•	-	•
23	339	Other Plant & Misc Equipment	6.67%			-					-	-	-
24	340	Office Furniture & Equipment	6.67%			-			•		170	2,552	421
25	340.1	Computers & Software	20.00%			-			•		-	-	-
26	341	Transportation Equipment	20.00%			-			•		•	-	-
27		Stores Equipment	4.00%			-			-		-	•	•
28	343	Fools, Shop & Gerage Equipment	5.00%			-					•	•	-
29		Laboratory Equipment	10.00%			-			-		•	-	
30	345	Power Operated Equipment	5.00%			-			•		•	-	•
31		Communication Equipment	10,00%			-			•		•	-	
32		Miscellaneous Equipment	10.00%						•		-	-	-
33		Other Tangible Plant	10,00%			•			•		•	•	
34		Plant Held for Future Use	- 1			-			•		•		•
35			- 1										
36		TOTALS	ı	•			•				135,001	3 959 487	750.24

Utility Source, LLC - Water Division Plant Additions and References

Exhibit Rebuttal Schedule B-2 Page 3,7 Witness: Bourasss

	NARUC	:	Allowed	Plent				20	011				
Line	Account	1				Adjusted	Plant		Adjusted				
No.	No.	Description	Deprec.	Additions	Plant	Plant	Retirements	Retirement	Plant	Salvege	Depreciation	Plant	Accum
		Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D, Only	(Calculated)	Balance	Depres.
1	301	Organization Cost	0.00%	ĺ									
2	302	Franchiss Cost	0.00%			•			•				
3	303	Land and Land Rights	0.00%			-						-	
4	304	Structures & Improvements	3.33%	2.500		2,500						210,000	
5	305	Collecting & Impounding Reservoirs	2.50%	_,		2,500			•		2,681	81,748	19,0
6	306	Lake, River, Canal Intakes	2,50%			•			•		-		
7	307	Wells & Springs	3.33%	7.000		7,000			•				
8	306	Infiltration Galleries	6,67%	,,000		7,000			•		94,168	2,831,962	580,25
9	309	Raw Water Supply Mains	2.00%						•				
10	310	Power Generation Equipment	5.00%			•					-		
11	311	Pumping Equipment	12,50%			•			-		4,456	89,125	33,07
12	320	Water Treatment Equipment	3,33%			-			•		19,839	158,711	148.79
13	320.1	Water Treatment Plants	3,33%			-			•		183	5,487	1,37
14	320.2	Solution Chemical Feeders	20,00%			•			-		-	-	
15	330	Distribution Reservoirs & Standpipes	2.22%			•			-				-
16	330.1	Storage Tanks	2.22%			•			-		7,136	321,452	53,52
7	330.2	Pressure Tenka	5.00%			-			-			-	
8	331	Transmission & Distribution Mains	2.00%	14.432		14.432			•				
9	333	Services	3.33%	14,402		14,432			•		3,088	161,632	22,22
20	334	Meters	8.33%			•			-		2,872	86,250	21,54
1	335	Hydrants	2.00%			-			-				
2	336	Backflow Prevention Devices	6.67%			•			•		690	34,500	5,17
3	339	Other Plant & Misc Equipment	6.67%			•						-	
4		Office Furniture & Equipment	6.67%			-			-			-	
5		Computers & Software	20.00%			•			-		170	2,552	596
6	341	Transportation Equipment	20,00%			•			•				
7	342	Stores Equipment	4.00%			•			-				
8		Tools, Shop & Garage Equipment	5.00%			-			-			-	
9		Laboratory Equipment	10.00%			•							-
D	345	Power Operated Equipment	5.00%			-			•				-
1	346	Communication Equipment	10.00%									• '	
2		Miscellaneous Equipment	10.00%			-			-				
3		Other Tangible Plant	10.00%			•			•				
t		Plant Held for Future Use				•			•				
5			1			•							
•	1	TOTALS	_ ⊢	23,932		22.022							
				20,002		23,932					135,303	3,983,419	885,551

Utility Source, LLC - Water Division Plant Additions and Retirements

Exhibit Rebuttel Schedule 8-2 Page 3.8 Wilness: Bouresse

Line	NARUC Account		Allowed Depres	Plant Additions	Plant	Adjusted Plent	Plant	0	2012 Adjusted					
No.	Ne.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Retirement	Plant	Plant	Salvage	Depreciation	Plant	Accum,
			T	1 11 11 11 11 11	Contract (N) (G)	CANADO	(Fer Books)	Adjustments	Retrements	Adiustments	A/D Only	(Calculated)	Balance	Degree.
1	301	Organization Cost	0.00%											
2	302	Franchise Cost	0.00%	1					_			•	:	-
3	303	Land and Land Rights	0.00%	,									210,000	•
4	304	Structures & Improvements	3,33%			-			-	(8,751)	(1,062)	2,722	72,997	20,66
5		Collecting & Impounding Reservoirs	2,50%						-	(-,,-,,	11.002/	4.722	12.001	20,00
6		Lake, River, Canal Intakes	2.50%	i					-					•
7	307	Wells & Springs	3.33%	l		-			_	(1,478,423)	(293,372)	94,304	1,353,539	381,18
8		Infiltration Galleries	6.67%	ľ					_	(, ,	(04,300	1,993,000	201,100
9		Raw Water Supply Mains	2.00%			-								•
10	310	Power Generation Equipment	5.00%			-				. (1,725)	(388)	4.456	87,400	37,14
11		Pumping Equipment	12.50%			-			-	. (/	()	9,919	158,711	158,711
12		Water Treatment Equipment	3.33%			-						163	5,487	1,551
13	320.1	Water Treatment Plants	3.33%			-							3,461	
14	320,2	Solution Chemical Feeders	20.00%			-							:	•
15		Distribution Reservoirs & Standpipes	2.22%						-			7.136	321,452	80,656
16	330.1	Storage Tanks	2.22%						_			7.130	321,432	
17	330.2	Pressure Tanks	5.00%									:	:	-
18		Transmission & Distribution Mains	2.00%			-			_			3.233	161,632	25,457
19	333	Services	3.33%						_			2,872	88,250	
20		Meters	8.33%			-						2,012	86,250	24,413
21		Hydrants	2,00%			-						690	34,600	
22		Backflow Prevention Devices	6.67%			-			_			690	34,500	5,865
23		Other Plant & Misc Equipment	6.67%						_			•		-
24	340	Office Furniture & Equipment	6.67%	2,119		2,119			_			241	4,672	837
25		Computers & Software	20.00%									241	4.072	637
26		Transportation Equipment	20.00%			-						-	•	
27	342	Stores Equipment	4.00%			_						•	•	-
28	343	Tools, Shop & Garage Equipment	5.00%									•	•	•
29		Laboratory Equipment	10.00%			-						- :	•	•
10		Power Operated Equipment	5.00%			-							•	•
31		Communication Equipment	10.00%			_			-			•	•	•
32		Miscellaneous Equipment	10,00%										•	•
13		Other Tangible Plant	10.00%			-			-			•	-	•
14		Plant Held for Future Use	- 1									•	•	•
15			i i									•	-	•
16	1	IDIALS	r	2.119		2,119				(1,488,899)	(294,821)	125.757	2.498.640	716 486

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 2

Exhibit Rebuttal Schedule B-2 Page 4 Witness: Bourassa

Accumulated Depreciation

			Accumulated Depre	ciation					
Line									
No.						<u>Adjustments</u>			
1				Δ	<u>B</u>	<u>Ç</u>	₽	E	
2									Rebuttal
3			Adjusted	Adjustments	Intentionally	Intentionally	Intentionally	Intentionally	Adjusted
4	Acct.		Accum.	To Reconcile Plant	Lefi	Left	Left	Left	Accum.
5	No.	<u>Description</u>	Depr.	To Reconstruction	<u>Blank</u>	Blank	Blank	<u>Blank</u>	Depr.
6	301	Organization Cost	-	•					•
7	302	Franchise Cost	•	•					•
8	303	Land and Land Rights	-	•					-
9	304	Structures and Improvements	20,662	•					20,662
10	305	Collecting and Impounding Res.							•
11	306	Lake River and Other Intakes		•					-
12	307	Wells and Springs	381,185						381,185
13	308	Infiltration Galleries and Tunnels							
14	309	Supply Mains	-	-					
15	310	Power Generation Equipment	37,145						37,145
16	311	Electric Pumping Equipment	168,630	(9,919)					158,711
17	320	Water Treatment Equipment	1,553	• • •					1,553
18	320.1	Water Treatment Plant							
19	320.2		-						-
20	330	Dist, Reservoirs & Standpipe	60,658	-					60,658
21	330.1	Storage lanks	•						
22	330.2								
23	331	Trans, and Dist. Mains	25,457						25,457
24	333	Services	24,413						24,413
25	334	Meters		_					
26	335	Hydrants	5,865	_					5,865
27	336	Backflow Prevention Devices							
28	339	Other Plant and Misc, Equip.	_	_					
29	340	Office Furniture and Fixtures	837	_					837
30	340.1	Computers and Software	-	_					
31	340.1	Transportation Equipment							
32	342	Stores Equipment	•	-					_
		Tools and Work Equipment	•	-					
33	343		•	•					
34	344	Laboratory Equipment	•	•					
35	345	Power Operated Equipment	•	•					-
36	346	Communications Equipment	•	-					•
37	347	Miscellaneous Equipment	•	•					
38	348	Other Tangible Plant	•	•					•
39				40.040				s -	\$ 716,486
40		TOTALS	\$ 726,406	\$ (9,919)	-	\$ -	•	•	\$ /10,400
41									* 700 400
42	Accumu	lated Depreciation per Books							\$ 726,406
43									
44	increase	e (decrease) in Accumulated Deprei	ciation					-	\$ (9,919)
45									
46	Adjustm	ent to Accumulated Depreciation							\$ (9,919)
47									

48 <u>SUPPORTING SCHEDULES</u>
49 B-2, pages 4.1
50 B-2, pages 4.2

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 2 - A

Exhibit Rebuttal Schedule B-2 Page 4.1 Witness: Bourassa

Line No.								
1	Reconc	ilation to Reconstructed Accumulate	d Deor	eciation				
2	1,000110	Marie To Trace 13 a de la Francia de la Companya de	u Dopi	CCIATION			Accumulated	
3				Adjusted		Adjusted	Depreciation	
4	Acct.			cumulated		cumulated	Per Plant	
5	No.	Description		epreciation		preciation	Reconstruction	Difference
6	301	Organization Cost	<u> </u>	predation	ne	preciation	Reconstruction	Difference
7	302	Franchise Cost		•		•	•	•
8	303	Land and Land Rights		-		•	•	•
9	303	Structures and Improvements		20,662		20.662	20.662	-
10	305			20,002		20,662	20,002	-
11	305	Collecting and Impounding Res.		-		•	•	-
12	306	Lake River and Other Intakes		204 405		204 405	204 405	-
13	308	Wells and Springs		381,185		381,185	381,185	-
14	309	Infiltration Galleries and Tunnels		-		-	-	-
15	310	Supply Mains		27.445		07.445		•
16	311	Power Generation Equipment		37,145		37,145	37,145	-
		Electric Pumping Equipment		168,630		168,630	158,711	(9,919)
17	320	Water Treatment Equipment		1,553		1,553	1,553	-
18		Water Treatment Plant		•		-	-	•
19		Chemical Solution Feeders		-				-
20	330	Dist. Reservoirs & Standpipe		60,658		60,658	60,658	-
21	330.1	Storage tanks		-		-	-	•
22		Pressure Tanks		· · ·			. •	-
23	331	Trans. and Dist. Mains		25,457		25,457	25,457	•
24	333	Services		24,413		24,413	24,413	•
25	334	Meters						-
26	335	Hydrants		5,865		5,865	5,865	-
27	336	Backflow Prevention Devices		•		-	•	•
28	339	Other Plant and Misc. Equip.		-		-	-	•
29	340	Office Furniture and Fixtures		837		837	837	-
30	340.1	Computers and Software		-		-	-	•
31	341	Transportation Equipment		•		-	-	-
32	342	Stores Equipment		-		-	-	-
33	343	Tools and Work Equipment		•		•	•	-
34	344	Laboratory Equipment		-		-	-	-
35	345	Power Operated Equipment		-		-	•	-
36	346	Communications Equipment		•		-	•	-
37	347	Miscellaneous Equipment		-		-	• ,	-
38	348	Other Tangible Plant		-		-	•	-
39		Plant Held for Future Use		-				-
40		TOTALS	\$	726,406	\$	726,406	\$ 716,486	\$ (9,919)
41								

41 42 43 <u>SUPPORTING SCHEDULE</u> 44 B-2, pages 4.1 45 B-2, pages 3.3 - 3.9

Utility Source. LLC - Water Division

Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit Rebuttal Schedule B-2 Page 5.0 Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

<u>No.</u> 1					
2					
3			Gross	Acc	umulated
4			CIAC		ortization
5	Computed balance at end of test year	\$	294,745	\$	95,670
6			•	•	,
7	Adjusted balance at end of test year	_\$	294,745	\$	96,938
8					
9	Increase (decrease)	\$	-	\$	(1,267)
10				,	(,,, ,
11					
12	Adjustment to CIAC/AA CIAC	\$	-	\$	1,267
13	Label		3a		3b
14					00
15					

SUPPORTING SCHEDULES

E-1

B-2, page 5.1

Line

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Contributions-in-aid of Construction (CIAC) Exhibit Rebuttal Schedule B-2 Page 5.1 Witness: Bourassa

Line	
No.	
1	
2	
2 3 4	
5	Gross CIAC
6	
7	Amortization Decision No. 70140
8	Amortization Rate
9	Amortization
10	Accumulated Amortization
11	
12	Net CIAC
13	
14	
15	
16	
17	
18	
19	
20	
21	Gross CIAC
22	
23	
24	Amortization Rate
25	Amortization
26	Accumulated Amortization
27	
28	Net CIAC
29	

[20	006	2007		20	800	2009	
Balance 12/31/2005	Additions	Balance 12/31/2006	Additions	Balance 12/31/2007	Additions	Balance 12/31/2008	Additions	Balance 12/31/2009
294,745		294,745		294,745		294,745		294,745
16,207								
1		3.67%		3.67%		3.66%		3.27
		10,817		10,817		10,788		9,63
		27,024		37,841		48,629		58,26
278,538		267,721		256,904		246,116		236 478

20	10	20	11	2012			
Additions	Balance 12/31/2010	Additions	Balance 12/31/2011	Additions	Balance 12/31/2012		
	294,745	-	294,745	-	294,745		
	3.60%		3.59%		5.509		
	10,611		10,581		16,211		
	68,878		79,459		95,670		
	225,867		215,286		199.075		

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment 4 **Customer Deposits**

Exhibit Rebuttal Schedule 8-2 Page 6.0 Witness: Bourassa

Line		
No.		
1		
2		
3		
4	Computed balance at end of test year	\$ 5,885
5		
6	Book balance at end of test year	\$ 5,885
7		
8	Increase (decrease)	\$ -
9		
10		
11		
12		
13		

SUPPORTING SCHEDULES Testimony

19 Work papers

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Computation of Working Capital

Exhibit Rebuttal Schedule B-5 Page 1 Witness: Bourassa

Line No. 1 2 3 4 5 6 7	Cash Working Capital (1/8 of Allowance Operation and Maintenance Expense) Pumping Power (1/24 of Pumping Power) Purchased Water (1/24 of Purchased Water Prepaid Expenses	\$	10,275 2,783 -
8 9 10 11	Total Working Capital Allowance	\$	13,058
12	Working Capital Requested		_
13			
14			
15			
16			
17			usted Test Year
18	Total Operating Expense	\$	212,069
19	Less:		
20	Income Tax	. \$	(1,475)
21 22	Property Tax		7,464
23	Depreciation Purchased Water		57,091
23 24	Pumping Power		-
25	Allowable Expenses	-\$	66,787 82,202
26	1/8 of allowable expenses	\$	
27	TO OF BILOWADIE EXPENSES	<u> </u>	10,275
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEE	DULES:
30	E-1	B-1	
31		*	
32			
22			

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Income Statement

Exhibit Rebuttal Schedule C-1 Page 1 Witness: Bourassa

Line <u>No.</u> 1	Revenues		Fest Year Adjusted <u>Results</u>	<u>Ad</u>	justment	1	Rebuttal Fest Year Adjusted <u>Results</u>		Proposed Rate Increase	,	Rebuttal Adjusted with Rate Increase
2	Metered Water Revenues	\$	202,743	\$	-	\$	202,743	\$	226,783	\$	429,526
3	Unmetered Water Revenues	•	202,740	•	_	•	202,140	۳	220,700	Ψ	420,520
4	Other Water Revenues		5,261		(1,820)		3,441				3,441
5	Strict Trate, November	\$	208,004	\$	(1,820)	\$	206,184	\$	226,783	8	432,967
6	Operating Expenses	•	200,004	•	(1,020)	•	200,104	Ψ	220,103	4	432,801
7	Salaries and Wages	\$	_		_	\$	_			\$	
8	Purchased Water	•	-		_	•	_			Ψ	-
9	Purchased Power		66,787		_		66,787				66,787
10	Fuel For Power Production		00,707		_		00,767				00,707
11	Chemicals		1,460		_		1,460				1,460
12	Materials and Supplies		12,257		_		12,257				12,257
13	Office Supplies and Expense		2,399		-		2,399				2,399
14	Contractual Services - Accounting		20,253		-		20,253				
15	Contractual Services - Professional		9,651		-		9,651				20,253
16	Contractual Services - Maintenance		9,051		-		9,651				9,651
17	Contractual Services - Other		•		-		•				-
18	Water Testing				- (6.697)		4 470				4 470
	_		8,107		(6,637)		1,470				1,470
19	Rents				(4.750)		(4.750)				/4 750 \
20	Transportation Expenses		0.400		(1,750)		(1,750)				(1,750)
21	Insurance - General Liability		2,186		•		2,186				2,186
22	Insurance - Health and Life		-		-		-				-
23	Reg. Comm. Exp Other		-		-						
24	Reg. Comm. Exp Rate Case		10,000		6,667		16,667				16,667
25	Miscellaneous Expense		19,976		(2,366)		17,610				17,610
26	Bad Debt Expense										
27	Depreciation and Amortization Expense		57,728		(637)		57,091				57,091
28	Taxes Other Than Income				•						-
29	Property Taxes		7,530		(66)		7,464		2,737		10,201
30	Income Tax		(2,064)		590		(1,475)		44,890		43,415
31	Total Operating Expenses	\$	216,269	\$	(4,200)		212,069	\$	47,627	\$	259,696
32	Operating Income	\$	(8,265)	\$	2,380	\$	(5,885)	\$	179,157	\$	173,271
33	Other Income (Expense)										
34	Interest Income		-		-		-				-
35	Other income		-		-		-				-
36	Interest Expense		-		-		-				-
37	Other Expense		-		-		•				-
38					-		•				
39	Total Other Income (Expense)	\$		\$		\$	-	\$		\$	
40	Net Profit (Loss)	\$	(8,265)	\$	2,380	\$	(5,885)	\$	179,157	\$	173,271
41									· ·		
42	SUPPORTING SCHEDULES:							REC	CAP SCHEDU	JLES	<u>3:</u>
43	C-1, page 2							A-1			
4.4	C n										

SUPPORTING SCHEDULES: C-1, page 2 E-2

44 45

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Income Statement Exhibit Rebultal Schedule C-1 Page 2.1 Witness: Bourassa

			BEL>>>> Test Year	1		2			3		4	<u>5</u>		<u>6</u>		I
Line No.			Adjusted Results	Depreciati	ion	Property Taxes		Cas	Rate Expense		Revenue Adjustment	Water Testing	E	Auto xoense		ephone pense
1	Revenues				_								_		_	
2	Metered Water Revenues	5	202,743													
3	Unmetered Water Revenues		-													
4	Other Water Revenues		5,261								(1,820)					
5		\$	208,004	\$	-	\$.		\$		\$	(1,820) \$		\$		\$	-
6	Operating Expenses															
7	Salaries and Wages	\$	-													
8	Purchased Water		-													
9	Purchased Power		66,787													
10	Fuel For Power Production															
11	Chemicals		1,460													
12	Materials and Supplies		12,257													
13	Office Supplies and Expense		2,399													
14	Contractual Services - Accounting		20,253													
15	Contractual Services - Professional		9,651													
16	Contractual Services - Maintenance															
17	Contractual Services - Other		-													
18	Water Testing		8,107									(6,637)	ı			
19	Rents															
20	Transportation Expenses		-											(1,750)		
21	Insurance - General Liability		2,186													
22	Insurance - Health and Life		`-													
23	Reg. Comm. Exp Other		-													
24	Reg. Comm. Exp Rate Case		10,000						6,667							
25	Miscellaneous Expense		19,976													(2,366)
26	Bad Debt Expense		-													
27	Deprec. and Amort. Exp.		57,728	(6	337)											
28	Taxes Other Than Income			,	•											
29	Property Taxes		7,530			((66)									
30	Income Tax		(2,064)			,	٠.									
31	Total Operating Expenses	3	216,269	\$ (6	37)	\$ ((66)	\$	6.667	5	. \$	(6,637)	S	(1,750)	\$	(2,366)
32	Operating Income	s	(8,265)		37		66		(6,667)		(1,820) \$	6,637		1,750		2.366
33	Other Income (Expense)	•	(,	•		•		•	(-,,	-	(,	-,	•	.,		
34	Interest Income															
35	Other income		_													
36	interest Expense		-													
37	Other Expense		-													
38	onioi espailos		_													
39	Total Other Income (Expense)	S		5		. 2		\$		5	. 1		\$		\$	
40	Net Profit (Loss)	÷	(8,265)		37		66		(6,667)		(1,B20) \$	6,637		1,750		2,366
41	····· /coop,	-	(-,-50)						15,551		7:,	-,-41	Ť		·	
42	SUPPORTING SCHEDULES:															
43	C-2															
44	E-2															
	= =															

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Income Statement Exhibit Rebultal Schedule C-1 Page 2.2 Witness: Bourassa

		<u>8</u> Intentionally	9 Intentionally	10 Intentionally	1	1	Rebuttal Test Year	Proposed		Rebuttal Adjusted
Line No.		Left Blank	Left Blank	Left <u>Blank</u>		ome xes	Adjusted Results	Rate Increase		with Rate Increase
7	Revenues									
2	Metered Water Revenues					\$	202,743	\$ 226,783	\$	429,526
3	Unmetered Water Revenues						-			-
4	Other Water Revenues						3,441			3,441
5		\$ -	\$ -	\$.	\$	- \$	206,184	\$ 226,783	\$	432,967
6	Operating Expenses									
7	Salaries and Wages					\$	•		\$	•
8	Purchased Water						-			-
9	Purchased Power						66,787			66,787
10	Fuel For Power Production									-
11	Chemicals						1,460			1,460
12	Materials and Supplies						12,257			12,257
13	Office Supplies and Expense						2,399			2,399
14	Contractual Services - Accounting						20,253			20,253
15	Contractual Services - Professional						9,651			9,651
16 17	Contractual Services - Maintenance						-			•
	Contractual Services - Other									4 470
18 19	Water Testing						1,470			1,470
20	Rents						(1,750)			(1,750)
21	Transportation Expenses Insurance - General Liability						2,186			2,186
22	Insurance - General Liability						2,100			2, 100
23	Reg. Comm. Exp Other						-			-
24	Reg. Comm. Exp Rate Case						16,667			16.667
25	Miscellaneous Expense						17,610			17,610
26	Bad Debt Expense						11,010			17,010
27	Deprec, and Amort. Exp.	-					57,091			57.091
28	Taxes Other Than Income						07,001			07,007
29	Property Taxes						7,464	2,737		10,201
30	Income Tax					590	(1,475)	44,890		43,415
31	Total Operating Expenses	\$	\$.	\$ -	5	590 \$	212,069		3	259.696
32	Operating Income	\$ - S -	\$ -	\$.	\$	(590) \$		\$ 179,157	Š	173,271
33	Other Income (Expense)	•		•	•		\		•	
34	Interest Income									-
35	Other income						-			_
36	Interest Expense						-			
37	Other Expense						-			-
38										
39	Total Other Income (Expense)	\$	\$.	\$	\$	- \$	-	\$ -	\$	-
40	Net Profit (Loss)	\$.	\$ -	\$ -	\$	(590) \$	(5,885)	\$ 179,157	\$	173,271
41										
42	SUPPORTING SCHEDULES:							RECAP SCH	EDUL	ES:
43	C-2							C-1, page 1		
44	E-2									

Exhibit Rebuttal Schedule C-2 Page 1 Witness: Bourassa

Line			<u>Adjustme</u>	ents to Revenues an	d Expenses			
<u>No.</u> 1	•	<u>1</u>	<u>2</u>	3	4	<u>5</u>	<u>6</u>	Subtotal
3		Depreciation Expense	Property <u>Taxes</u>	Rate Case Expense	Revenue Adjustment	Water Testing	Auto <u>Expe</u> nse	
4 5	Revenues				(1,820)		<u> </u>	(1,820)
6 7	Expenses	(637)	(66)	6,667		(6,637)	(1,750)	(2,423)
8	Operating							
9 10	Income	637	66	(6,667)	(1,820)	6,637	1,750	603
11	Interest							
12	Expense						_	
13 14	Other						•	•
15	Income / Expense							-
16	Expense			· · · · · · · · · · · · · · · · · · ·				_
17	Net Income	637	66	(6,667)	(1,820)	6,637	1,750	603
18 19							.,,,,,,	000
20								
21		7	Adjustmen	ts to Revenues and				
22		<u>7</u>	8 Intentionally	9	<u>10</u>	<u>11</u>		Subtotal
23		Telephone	Left	Intentionally Left	Intentionally	_		
24		Expnese	Blank	Blank	Left <u>Blank</u>	Income		
25	Revenues		<u>Didiik</u>	DIAHK	ыапк	Taxes		
26								(1,820)
27	Expenses	(2,366)		-		590	_	(4.200)
28					· · · · · · · · · · · · · · · · · · ·			(4,200)
29 30	Operating							
31	Income	2,366	•	-	•	(590)	•	2,380
32	Interest							2,000
33	Expense							
34	Other							-
35	Income /							
36	Expense							•
37								
38	Net Income	2,366			-	(590)		2 200
39						(380)		2,380
40								

Exhibit Rebuttal Schedule C-2 Page 2 Witness: Bourassa

Depreciation Expense

Line No.										
1										
2			Adjusted				Adjusted			
3	Acct.		Original	Non-deprecia			Original	<u>Proposed</u>	Dep	reclation
4	<u>No.</u>	Description	Cost	Fully Depreci	ated		Cost	Rates	E	xpense
5	301	Organization Cost	-		•		-	0.00%		•
6	302	Franchise Cost	-		-		-	0.00%		-
7	303	Land and Land Rights	210,000	(21	0,000)		-	0.00%		•
8	304	Structures and Improvements	72,997				72,997	3.33%		2,431
9	305	Collecting and Impounding Res.	-				-	2.50%		-
10	306	Lake River and Other Intakes	-				-	2.50%		-
11	307	Wells and Springs	1,353,539				1,353,539	3.33%		45,073
12	308	Infiltration Galleries and Tunnels	•				-	6.67%		•
13	309	Supply Mains	-				-	2.00%		-
14	310	Power Generation Equipment	89,125				89,125	5.00%		4,456
15	311	Electric Pumping Equipment	158,711	(15	B,711)		-	12.50%		-
16	320	Water Treatment Equipment	5,487				5,487	3.33%		183
17	320.1	Water Treatment Plant	-				-	3.33%		-
18	320.2	Chemical Solution Feeders	-				-	20.00%		-
19	330	Dist. Reservoirs & Standpipe	321,452				321,452	2.22%		7,136
20	330.1	Storage tanks	•				-	2.22%		-
21	330.2	Pressure Tanks	•				-	5.00%		-
22	331	Trans. and Dist. Mains	161,632				161,632	2.00%		3,233
23	333	Services	86,250				86,250	3.33%		2,872
24	334	Meters	-				•	8.33%		-
25	335	Hydrants	34,500				34,500	2.00%		690
26	336	Backflow Prevention Devices	-		-		-	6.67%		-
27	339	Other Plant and Misc. Equip.	-				-	6.67%		-
28	340	Office Furniture and Fixtures	2,947				2,947	6.67%		197
29	340.1	Computers and Software	•				-	20.00%		-
30	341	Transportation Equipment	-				-	20.00%		-
31	342	Stores Equipment	-				-	4.00%		-
32	343	Tools and Work Equipment	-				-	5.00%		•
33	344	Laboratory Equipment	-				-	10.00%		-
34	345	Power Operated Equipment	-				-	5.00%		•
35	346	Communications Equipment	-				-	10.00%		_
36	347	Miscellaneous Equipment	-				-	10.00%		-
37	348	Other Tangible Plant	•					10,00%		
38		TOTALS	\$ 2,496,640	\$ (368	3,711)	\$	2,127,929	•	\$	66,270
39 40						Gr	oss CIAC	Amort. Rate		
41	Less. Am	nortization of Contributions				\$	294,745	3.1143%	\$	(9,179)
42		preciation Expense				•	204,740	3.114376	\$	57,091
43	rotar De	producti Expense							•	37,031
44	Adjusted	Test Year Depreciation Expense								57,728
45	Aujusteu	rest real Depreciation Expense							-	37,720
46	Incresse	(decrease) in Depreciation Expense								(637)
47	micrease	(becrease) in Depreciation Expense							-	(007)
48	Adiustma	ent to Revenues and/or Expenses							•	(637)
	Aujustine	an to revenues and/or expenses							\$	(637)
49	EHIDDOS	TIMO COMEDINE								
50 51		RTING SCHEDULE				4C. JI.	/ Depreciated			
31	B-2, page	: J				run	y pableciated	·		

Exhibit Rebuttal Schedule Page 3 Witness: Bourassa

Property Taxes

Line		,	Test Year		Company
No.	DESCRIPTION	а	s adjusted	Re	commended
1	Company Adjusted Test Year Revenues	\$	206,184	\$	206,184
2	Weight Factor		2		. 2
3	Subtotal (Line 1 * Line 2)		412,368		412,368
4	Company Recommended Revenue		206,184		432,967
5	Subtotal (Line 4 + Line 5)		618,552		845,336
6	Number of Years		3		3
7	Three Year Average (Line 5 / Line 6)		206,184		281,779
8	Department of Revenue Mutilplier		. 2		2
9	Revenue Base Value (Line 7 * Line 8)		412,368		563,557
10	Plus: 10% of CWIP (intentionally excluded)		-		-
11	Less: Net Book Value of Licensed Vehicles		-		-
12	Full Cash Value (Line 9 + Line 10 - Line 11)		412,368		563,557
13	Assessment Ratio		20.0%		20.0%
14	Assessment Value (Line 12 * Line 13)		82,474		112,711
15	Composite Property Tax Rate - Obtained from ADOR		9.0503%		9.0503%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$	7,464	\$	10,201
17	Tax on Parcels		-		-
18	Total Property Taxes (Line 16 + Line 17)	\$	7,464		
19	Test Year Property Taxes	\$	7,530		
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$	(66)		
21					
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)			\$	10,201
23	Company Test Year Adjusted Property Tax Expense (Line 18)			\$	7,464
24	Increase in Property Tax Due to Increase in Revenue Requirement			Š	2,737
25	, ,			<u> </u>	
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 2	41		\$	2,737
27	Increase in Revenue Requirement	7,		\$	226,783
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27	7)		Ψ	1.20671%
29	The same the following for the same thousand the following the same same same same same same same sam	,			1.200/170

39 40

Exhibit Rebuttal Schedule C-2 Page 4 Witness: Bourassa

Rate Case Expense

Line			
No.			
1			
2			
3	Estimated Rate Case Expense	\$	50,000
4			,
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense	\$	16,667
8			
9	Adjusted Test Year Rate Case Expense	\$	10,000
10			
11	Increase(decrease) Rate Case Expense	\$	6,667
12			
13	Adjustment to Revenue and/or Expense	\$	6,667
14		-	
15			
16	Reference		
17	Testimony		
18			
19			
20			

Exhibit Rebuttal Schedule C-2 Page 5 Witness: Bourassa

Revenue Adjustment

Line No. 1			
2	Revenue Adjustment	\$	(1,820)
4			
5			
6	Total Revenue from Annualization	\$	(1,820)
7			
8 9	Adjustment to Devenue and/or Evnence	¢	(4.920)
10	Adjustment to Revenue and/or Expense	<u> </u>	(1,820)
11	Reference		
12	Staff Adjustment # 1		
13			
14			
15 16			
17			
18			
19			
20			

Exhibit Rebuttal Schedule C-2 Page 6 Witness: Bourassa

Water Testing

Line		
No.		
1		
2	Staff Recommended Water Testing Expense	\$ 1,470
3		·
4	Adjuste Test Year Water Testing Expense	\$ 8,107
5		·
6	Adjustment to purchased power expense (rounded)	\$ (6,637)
7		
8		
9	Adjustment to Revenue and/or Expense	(6,637)
10		
11	Reference	
12	Staff Adjustment #3	
13		
14		
15		
16		
17		
18		
19		
20		

Rebuttal Schedule C-2 Page 7 Witness: Bourassa

Exhibit

Auto Expense

Line		
<u>No.</u>		
1		
2	Test Year Auto Expense	\$ 1,500
3		
4	Staff Recommended Auto Expense	3,250
5	• · · · · · · · •	
6	Adjustment to Revenues	\$ (1,750)
7		
8		
9	Adjustment to Revenue and/or Expense	 (1,750)
10		
11	Reference	
12	Staff Adjustment #4	
13		
14		
15		
16		
17		
18		
19		
20		

Exhibit Rebuttal Schedule C-2 Page 8 Witness: Bourassa

Telephone Expense

Line <u>No.</u> 1		
2 3	Staff Recommended Telephone Expense	\$ 2,366
4 5	Adjusted Test Year Telephone Expense	4,732
6 7	Adjustment to Revenues	\$ (2,366)
8		
9 10	Adjustment to Revenue and/or Expense	\$ (2,366)
11	Reference	
12	Staff Adjustment #5	
13		
14		
15 16		
17		
18		
19		
20		

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Exhibit Rebuttal Schedule C-2 Page 9 Witness: Bourassa

19 20

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Exhibit Rebuttal Schedule C-2 Page 10 Witness: Bourassa

SUPPORTING SCHEDULE C-3, page 2

Exhibit Rebuttal Schedule C-2 Page 12 Witness: Bourassa

	Adjustinent Number 1	ŀ		VV	tness: Boura	ssa
Line						
No.						
1	Income Taxes					
2			Te	st Year	T	est Year
3			at Pre	sent Rates		posed Rates
4	Compauted Income Tax		\$	(1,475)	\$	43,415
5	Test Year Income tax Expense			(2,064)		(1,475)
6	Adjustment to Income Tax Expense		\$	590	\$	44.890
7						
8						

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit

Rebuttal Schedule C-3 Page 1 Witness: Bourassa

		Percentage
		of
		Incremental
Line	Description	Gross
No.	<u>Description</u>	Revenues
1 2	Combined Federal and State Effective Income Tax Rate	20.036%
3	Property Taxes	0.965%
4	Troporty rando	0.55070
5		
6	Total Tax Percentage	21.001%
7	•	
8	Operating Income % = 100% - Tax Percentage	78.999%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.2658
15		
16		
17		
18		
19		
20		
21		
22 23		
23 24		
25 25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27	C-3, page 2	A-1
28		
29		
30		
31		
32		
33		
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39		
40		

Utility Source, LLC - Water Division Test Year Ended December 31, 2012

GROSS REVENUE CONVERSION FACTOR

Exhibit Rebuttal Schedule C-3 Page 2 Witness: Bourassa

Lin No		(A)	(8)	(C)	(D)	(E)	(F)
1 2 3 4 5	Calculation of Gross Revenue Conversion Factor, Revenue Uncollecible Factor (Une 11) Revenues (L1 - L2) Cambined Federal and State Income Tax and Property Tax Rale (Une 23) Subtota (L3 - L4) Revenue Conversion Factor (L1 / L5)	100.000% 0.0000% 100.000% 21.0009% 78.9961% 1.285438					
7 8 9 10	Calculation of Uncollectible Factor: Unity Combined Federal and State Tax Rate (L17) One Minus Combined Income Tax Rate (L7 - L8) Incollectible Rate Uncollectible Factor (L9 * L10)	100.0000% 20.0360% 79.9640% 0.0000%	0.000%				
12 13 14 15 16	Arizona State Income Tax Rate Federal Tax able Income (L12 - L13)	100.0000% 3.1527% 96.8473% 17.4329% 16.8833%	20.0360%				
18 19 20 21 22 23	Calculation of Effective Property Tax Factor Unity Combined Federal and State Ixcome Tax Rate (L17) One Minus Combined Income Tax Rate (L18-L19) Property Tax Factor Effective Property Tax Factor (L20*L21) Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	100.0000% 20.0360% 79.8840% 1.2067%	0.9649%	21.0009%			
25 26	Required Operating Income AdjustedTest Year Operating Income (Loss) Required Increase in Operating Income (L24 - L25)	\$ 173.271 \$ (5,885)	\$ 179,157				
28	Income Taxes on Recommended Revenue (Col. (F), L52) Income Taxes on Test Year Revenue (Col. (C), L52) Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ 43,415 \$ (1,475)	\$ 44,890				
31 32 33	Recommended Revenue Requirement Uncollectible Rate (Line 10) Uncollectible Expense on Recommended Revenue (L24 * L25) Adjusted Test / Yase Uncollectible Expense Required Increase in Revenue to Provide for Uncollectible Exp.	\$ 432,967 0.0000% \$	s -				
36	Property Tax with Recommended Revenue Property Tax on Test Year Revenue Increase in Property Tax Due to Increase in Revenue (L35-L36)	\$ 10,201 \$ 7,464	2.737				
	Total Required Increase in Revenue (L26 + L29 + L37)	3	226,783				
39	<u>Calculation of Income Tax:</u> Revenue	(A) Test Y. Total \$ 206,184	(B)	(C) Water 206,184	(D) Company Re Total \$ 432.967	[E] ecommended	JF] Water 432,967
41 42 43 44	Operating Expenses Excluding Income T axes Synchronized Interest (L47) Arizona Tarable Income (L39 - L40 - L41) Arizona State Effective Income T axr Rate (see work papers) Arizona Income Tar (L42 + L43)	213,544 \$ (7.360) 3.1527% \$ (232)	\$	213,544 (7,360) 3.1527% (232)	216,281 \$ 216,687 3.1527% \$ 6,831		216,687 3.1527%
46	Federal Taxable Income (L42- L44) Federal Tax Rate Federal Tax	\$ (7.128) 17.4329% \$ (1.243)	\$		\$ 209,855 17.4329% \$ 36,584	\$	209,855 17,4329% 36,584
52 53 1 54 (Total Federal Income Tax Combined Federal and State Income Tax (L35 + L42)	\$ (1,243) \$ (1,475)	\$	(1,243) (1,475)	\$ 36,584 \$ 43,415	\$ \$	36,584 43,415
30)	<u>20MBINED</u> Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / <u>NASTEWATER</u> Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L <u>NATER</u> Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col.	53) / (Col. 05) 1.45 - Col. (D1 1.45)			17.4329%	0.0000%	17.4329%
58 F 59 V	Cabulation of Interest Synchronization: Rate Base Weighted Average Cost of Debt Synchronized Interest (L59 X L50)	\$ \$	/astwater W 1,575,194 \$ 0,0000%	afer 1,575,194 0.0000%			

Utility Source, LLC - Water Division Revenue Summary Test Year Ended December 31, 2012 Exhibit Rebuttal Schedule H-1 Page 1 Witness: Bourassa

				Total Revenues at		Total Revenues at				Percent of Present	Percent of Proposed
Line	Mata-Ci	O(===:ff'==4)==		Present		Proposed		Dollar	Percent	Water	Water
<u>No.</u> 1	Meter Size 3/4 Inch	Classification	_	Rates	_	Rates	_	Change	Change	Revenues	Revenues
		Residential	\$	159,301	\$	327,130	\$,	105.35%	77.26%	75.56%
2	3/4 Inch	Commercial		322		811		490	152.32%	0.16%	0.19%
3	2 Inch	Commercial		38,120		89,877		51,757	135.78%	18.49%	20,76%
4 5	2 Inch	Irrigation		1,776		3,898		2,122	119.50%	0.86%	0.90%
6 7	Bulk/Construction	on		3,482		7,339		3,856	110.74%	1.69%	1.69%
8											
9	Subtotals of Re	evenues	-\$	203,001	\$	429,056	\$	226,055	111.36%	98.46%	99.10%
10	Revenue Annua	alizations:		,		,	•		* * * * * * * * * * * * * * * * * * * *	50.4070	33, 10 /6
11	3/4 Inch	Residential	\$	328	\$	634	\$	306	93.31%	0.16%	0.15%
12							•	***		0.1078	0.1070
13											
14											
15	Bulk/Construction	n		-		_		-	0.00%	0.00%	0.00%
16	Subtotal Reven	ue Annualization		328		634	_	306	93.31%	0.16%	0.31%
17											0.0170
18	Total Revenues	w/ Annualization	\$	203,328	\$	429,689	\$	226,361	111,33%	98.61%	99.24%
19	Misc Revenues	, as adjusted		3,441		3,441		•	0.00%	1.67%	0.79%
20	Reconciling Am	ount		(585)		(163)		422	-72.14%	-0.28%	-0.04%
21	Total Revenues	•	\$	206,184	\$	432,967	\$	226,783	109.99%	100.00%	100.00%
22 23											. 40.0070

Utility Source, LLC - Water Division Analysis of Revenue by Detailed Class Test Year Ended December 31, 2012 Exhibit Rebuttal Schedule H-2 Page 1 Witness: Bourassa

		Customer	(a) Average Number of <u>Customers</u>		Avers		Proposed Inc		Percent
Line		Classification	at	Average	Present	Proposed	Dollar	Percent	of
<u>No.</u>		d/or Meter Size	12/31/2012	Consumption	Rates	Rates	<u>Amount</u>	<u>Amount</u>	<u>Customers</u>
1	3/4 Inch	Residential	320	4,123	\$ 38.58	\$ 75.54	\$ 36.96	95.81%	98.16%
2	3/4 Inch	Commercial	1	1,667	26.50	66.86	40.36	152.30%	0.31%
3	2 Inch	Commercial	3	115,286	1,004.10	2,268.34	1,264.24	125.91%	0.92%
4	2 Inch	Irrigation	1	-	\$ 148.00	\$ 324.86	\$ 176.86	119.50%	0.31%
5									
6	Construction	n/Bulk	1	26,251	290.19	611.56	321.36	110.74%	0.31%
7									
8									
9									
10									
11								_	
12	Totals		326						100.00%
13			*					-	
14	Actual Year	End Number							
15	of Custome	ers:	327						
16									
17									
18									
19									

Docekt No. WS-04235A-13-0331

Utility Source, LLC - Water Division Analysis of Revenue by Detailed Class Test Year Ended December 31, 2012 Exhibit Rebuttal Schedule H-2

Page 2 Witness: Bourassa

			(a) Average							
			Number of							
		Customer	Customers		Medi			Proposed !		Percent
Line		Classification	at	Median	Present		Proposed	Dollar	Percent	of
No.		nd/or Meter Size	<u>12/31/2012</u>	Consumption	Rates		Rates	<u>Amount</u>	<u>Amount</u>	Customers
1	3/4 Inch	Residential	320	3,500	\$ 35.30	•	69.48	\$ 34.18	96.83%	98.16%
2	3/4 Inch	Commercial Commercial	1	1,500	\$ 25.70	\$	64.23	38.53	149.93%	0.31%
3	2 Inch	Commercial	3	65,000	613.40		1,348.61	735.21	119.86%	0.92%
4	2 Inch	Irrigation	1	-	\$ 148.00	\$	324.86	\$ 176.86	119.50%	0.31%
5										
6	Constructio	n/Bulk	1	40,501	437.69		921.50	483.82	110.54%	0.31%
7										
8										
9										
10									_	
11	Totals		326						_	100.00%
12									-	
13	Actual Year	End Number								
14	of Custom	ers:	327							
15										
16					-					
17										
18										

Utility Source, LLC - Water Division Revenue Breakdown Summary Present Rates

Exhibit Rebuttal Schedule H-2 Page 3 Witness: Bourassa

		٨	lonthly <u>Mins</u>		ommodity irst Tier		ommodity econd Tier	ommodity hird Tier	<u>Total</u>
3/4 Inch	Residential	\$	71,262	\$	54,684	\$	23,774	\$ 9.908	\$ 159,629
3/4 Inch	Commercial	\$	222	\$	89	\$	11	\$ · <u>-</u>	\$ 322
2 Inch	Commercial	\$	5,328	\$	14,424	\$	18,368	\$ -	\$ 38,120
2 Inch	Irrigation	\$	1,776	\$	•	\$	-	\$ -	\$ 1,776
Construction/Bu	lk	\$	222	\$	3,260	\$	-	\$ -	\$ 3,482
	TOTALS	\$	78,810	\$	72,457	\$	42,153	\$ 9,908	\$ 203,328
	Percent of Total		38.76%		35.64%		20.73%	4.87%	 100.00%
	Cummulative %		38.76%		74.40%		95.13%	100.00%	
				,	Amount	% o	f Revenues		
	Monthly Minimum	Rev	enues	\$	78,810		38.76%		
	Commodity Reve								
	Lowest Commodi	•		\$	54,773		26.94%		
	Middle Commodt	y Rati	9	\$	38,209		18.79%		
	Highest Commod	•		\$	31,536		<u> 15.51%</u>		
	Subtotal Commod	dity R	evenues	\$	124,518		61.24%		
	Total Revenues		:	\$	203,328		100.00%		

Utility Source, LLC - Water Division Revenue Breakdown Summary Proposed Rates

Exhibit Rebuttal Schedule H-2 Page 4 Witness: Bourassa

		ı	Monthly <u>Mins</u>	ommodity First Tier		Commodity Second Tier	ommodity Third Tier	Total
3/4 Inch	Residential	\$	156,420	\$ 93,988	\$	52,297	\$ 25,059	\$ 327,764
3/4 Inch	Commercial	\$	487	\$ 291	\$	33	\$ _	\$ 811
2 Inch	Commercial	\$	11,695	\$ 31,729	\$	46,454	\$ -	\$ 89,877
2 Inch	Irrigation	\$	3,898	\$ -	\$	-	\$ -	\$ 3,898
Construction/B	ulk	\$	487	\$ 6,851	\$	-	\$ -	\$ 7,339
	TOTALS	\$	172,988	\$ 132,860	\$	98,783	\$ 25,059	\$ 429,689
	Percent of Total		40.26%	30.92%		22.99%	 5.83%	 100.00%
	Cummulative %		40.26%	71.18%		94.17%	100.00%	
				Amount	%	of Revenues		
	Monthly Minimum	Reve	enues	\$ 172,988		40.26%		
	Commodity Reven			0.1.000		0.1 0.0 (
	Lowest Commodit	•		\$ 94,280		21.94%		
	Middle Commodty			\$ 84,058		19.56%		
	Highest Commodit	•		\$ 78,364		18.24%		
	Subtotal Commodi	ity Re	evenues	\$ 256,701		59.74%		
	Total Revenues			\$ 429,689		100.00%		

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Present and Proposed Rates

Exhibit Rebuttal Schedule H-3 Page 1

Line No.	Monthly Usage Charge for:		esent ates		Proposed Rates		Change	Percent Change
1	Meter Size (All Classes):							
2	5/8x3/4 Inch	\$	18.50	\$	40.61	\$	22.11	119.50%
2	3/4 Inch		18.50		40.61		22.11	119.50%
3	1 inch		46.50		101.52		55.02	118.32%
4	1 1/2 Inch		92.50		203.04		110.54	119.50%
5	2 Inch		148.00		324.86		176.86	119.50%
6	3 Inch		296.00		649.72		353.72	119.50%
7	4 Inch		462.50		1,015.19		552.69	119.50%
8	6 Inch		925.00		2,030.38		1,105.38	119.50%
9								
10								
11	*							
12	Gallons in Minimum (All Classes)		-		-			
13								
14					(Per 1,000	gal	lons)	
15					Present		roposed	
16	Commodity Rates	Block			Rate		Rate	
17								
18	5/8x3/4 Inch (Residential, Commercial)	1 gallons to 4,000 gallons		\$	4.80	s	8.25	
19	, , , , , , , , , , , , , , , , , , , ,	4,001 gallons to 9,000 gallons	,	\$	7.16	Š	15.75	
20		over 9,000 gallons		Ś	8.60	\$	21.75	
21				-		-		
22	3/4 Inch Meter (Residential, Commercial)	1 gallons to 4,000 gallons		\$	4.80	\$	8.25	
23	,	4,001 gations to 9,000 gallons	;	Š	7.16	Ś	15.75	
24		over 9,000 gallons		Š	8.60		21.75	
25				•		•		
26	1 Inch Meter (Residential, Commercial)	1 gallons to 27,000 gallons		\$	4.80	\$	15.75	
27	(over 27,000 gallons		Š	7.16		21.75	
28				•		-		
29	1.5 Inch Meter (Residential, Commercial)	Over Minimum up to 57,000 gr	allons	\$	4.80	\$	15.75	
30		Over 57,000 gallons		S	7.16	\$	21.75	
31				•		•		
32	2 Inch Meter (Residential, Commercial)	1 gallons to 94,000 gallons		\$	4.80	\$	15.75	
33	a morrison (moderation, politically	over 94,000 gallons		Š	7.16		21.75	
34		over or, over gament		•	*****	•		
35	3 Inch Meter (Residential, Commercial)	1 gallons to 195,000 gallons		\$	4.80	\$	15.75	
36	S West Meter (Condendar, Continuedar)	over 195,000 gallons		Š	7.16		21.75	
37				•	*	~	0	
38								
39								
40	NT = No Tariff							

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Present and Proposed Rates

Exhibit Rebuttal Schedule H-3 Page 2

		•				
Line						
No.						
1				(Per 1,000		
2		. .		Present		posed
3	Commodity Rates	Block	_	Rate		Rate
4	4 Inch Meter (Residential, Commercial)	1 gallons to 309,000 gallons	Ş	4.80		15.75
5		over 309,000 gallons	\$	7.16	2	21.75
6			_		_	
7	6 Inch Meter (Residential, Commercial)	1 gallons to 615,000 gallons	\$	4.80		15.75
8		over 615,000 gallons	\$	7.16	\$	21.75
9			_			
10	Irrigation Meters	All gallons	\$	9.26	5	15.75
11			_		_	
12	Standpipe or Bulk	All gations	\$	10,35	\$	21.75
13	_		_		_	
14	Construction	All gallons	S	10.35	\$	21.75
15						
16						
17						
18						
19						
20						
21						
22 23						
24						
25						
26 27						
28						
28 29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41						
42	Construction/Standpipe	Ali gailons		NT	\$	21.75
43	CO.19tt GOTOL & CITOL WITH THE	ran ganario			•	21.70
44	NT = No Tariff					

Utility Source, LLC - Water Division Present and Proposed Rates Test Year Ended December 31, 2012

Exhibit Rebuttal Schedule H-3 Page 3 Witness: Bourassa

Line							
No.							
1	Meter and Service Line (Charges'					
2			Present			Proposed	
3		Present	Meter		Proposed	Meter	
4		Service	Install-	Total	Service	Install-	Total
5		Line	ation	Present	Line	ation	Proposed
6		Charge	Charge	Charge	Charge	Charge	Charge
7	5/8 x 3/4 Inch			\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
8	3/4 Inch			575.00	415.00	205.00	620.00
9	1 Inch			660.00	465.00	265.00	730.00
10	1 1/2 Inch			900.00	. 520.00	475.00	995.00
11	2 Inch Turbo			1,525.00	800.00	995.00	1,795.00
12	2 Inch, Compound			2,320.00	800.00	1,840.00	2,640.00
13	3 Inch Turbo			2,275.00	1,015.00	1,620.00	2,635.00
14	3 Inch, compound			3,110.00	1,135.00	2,495.00	3,630.00
15	4 Inch Turbo			3,360.00	1,430.00	2,570.00	4,000.00
16	4 Inch, compound			4,475.00	1,610.00	3,545.00	5,155.00
17	6 Inch Turbo			6,035.00	2,150.00	4,925.00	7,075.00
18	6 Inch, compound			8,050.00	2,270.00	6,820.00	9,090.00

¹ Based on ACC Staff Engineering Memo dated Feburary 21, 2008

Other Charges:

Other Charges:	
Establishment	\$ 20
Establishment (After Hours)	\$ 40
Reconnection (Delinquent)	\$ 50
Reconnection (After hours)	\$ 40
Meter Test	\$ 20
Minimum Deposit Requirement	PER RU
Deposit Interest	PER RU
Re-establishment (Within 12 months)	PER RU
NSF Check	\$ 20
Deferred Payment, per month	1.59
Meter Re-read	\$ 10
Late Charge	1.59
Customer requested Meter Test	\$ 20
After hours service charge	\$ 40
Moving Customer Meter (at customer request)	Cost
L	

\$	20.00
•	Removed
\$	50.00
	Removed
\$	20.00
	R RULE
	R RULE
PI	ER RULE
\$	20.00
	1.5%
\$	10.00
	1.5%
\$	20.00
_ \$	40.00
C	ost

⁽a) \$ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

After hours service charge will apply when service requested by customer after hours.

REBUTTAL SCHEDULES WASTEWATER DIVISION

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Computation of Increase in Gross Revenue Requirements As Adjusted

Exhibit Rebuttal Schedule A-1 Page 1 Witness: Bourassa

24	Classification	Rates	Rates		Increase	Incr
23	Customer	Present	Proposed		Dollar	Per
22						
21	% Increase			•	175.31%	
20	Proposed Revenue Requirement			\$	328,900	
19	Increase in Gross Revenue Revenue Requirement			\$	209,436	
18	Adjusted Test Year Revenues			\$	119,464	
17	rzedmieniem			Þ	209,436	
15 16	Increase in Gross Revenue Requirement			\$	200 426	
14 15	Ingrance in Gross Povenue					
13	Gross Revenue Conversion Factor				1.2021	
12						
11	Operating Income Deficiency			\$	174,232	
10					11.0070	
9	Required Rate of Return				11.00%	
7 · 8	Required Operating Income			\$	90,844	
6	Remained On antine to some			•		
5	Current Rate of Return				-10.10%	
3 4	Adjusted Operating Income				(83,387)	
2 3	Adicated Operation Income				·	
<u>No.</u> 1	Fair Value Rate Base			\$	825,856	
Line						

23 24	Customer Classificatio	<u>n</u>	Present Rates	Proposed Rates		Dollar Increase	Percent Increase
25	3/4 Inch	Residential	\$ 92,479	\$ 287,729	\$	195,250	211.13%
26	3/4 Inch	Commercial	114	740		626	547.81%
27	2 Inch	Commercial	23,698	36,829		13,131	55.41%
28						-	0.00%
29	Revenue Ann	ualization	 173	741		567	327.23%
30	Subtotal		\$ 116,465	\$ 326,039	\$	209,574	179.95%
31			•				
32	Other Water I	Revenues	3,441	3,441		-	0.00%
33	Reconciling A	mount	(442)	(580)		(138)	31.22%
34	Rounding		 				0.00%
35	Total of Water	er Revenues	\$ 119,464	\$ 328,900	\$_	209,436	175.31%

SUPPORTING SCHEDULES: B-1 C-1 C-3

40

41

H-1

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Summary of Rate Base

Exhibit Rebuttal Schedule B-1 Page 1 Witness: Bourassa

Line <u>No.</u> 1			iginal Cost Rate base	air Value Rate Base
2	Gross Utility Plant in Service	\$	1,397,271	\$ 1,397,271
3 4	Less: Accumulated Depreciation		455,092	 455,092
5	Net Utility Plant in Service	\$	942,179	\$ 942,179
6				
7	Less:			
8 9	Advances in Aid of Construction		-	-
10 11	Contributions in Aid of Construction		197,973	197,973
12	Accumulated Amortization of CIAC		(86,715)	(86,715)
13	Contains Mater Deposits		5.005	£ 00£
14	Customer Meter Deposits Deferred Income Taxes & Credits		5,065	5,065
15 16	Deferred income Taxes & Credits		-	-
17				
18				
19	Plus:			
20	Unamortized Finance			
21	Charges			
22	Prepayments		-	-
23	Materials and Supplies		-	-
24	Allowance for Working Capital		_	-
25	Allowance for Working Capital		-	-
26				
27				
28	Total Rate Base	\$	825,856	\$ 825,856
29	Total Nate Bass	-	020,000	 020,030
30				
31				
32				
33				
24				

SUPPORTING SCHEDULES: B-2

43 <u>SUF</u> 44 B-2 45 B-3 46 B-5 47 E-1

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Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012

Original Cost Rate Base Proforma Adjustments

Exhibit Rebuttal Schedule B-2 Page 1 Witness: Bourassa

Line No.	Gross Utility		Adjusted at end of Test Year	Proforma <u>Adjustment</u>		Rebuttal Adjusted at end of Test Year
2	Plant in Service	\$	1,397,271	_	\$	1,397,271
3	r tent in Solvies	•	1,007,271	•	a)	1,397,271
4	Less:					
5	Accumulated					
6	Depreciation		455,064	28		455,092
7						
8						
9	Net Utility Plant					
10	in Service	\$	942,207		\$	942,179
11	Lance					
12 13	Less: Advances in Aid of					
14	Construction					
15	Construction		-	-		-
16	Contributions in Aid of					
17	Construction - Gross		197,973	_		107 073
18	33.3.23.3.7		107,575	•		197,973
19	Accumulated Amortization of CIAC		(86,711)	(4)		(86,715)
20			(,,	(- ,		(00,1 10)
21	Customer Meter Deposits		-	5,065		5,065
22	Accumulated Deferred Income Tax		-	· <u>-</u>		-
23						-
24						-
25						
26 27	Plus:			~		
28	Unamortized Finance Charges					
29	Prepayments		-	-		-
30	Materials and Supplies		-	-		-
31	Working capital		_	<u>-</u>		-
32	overming suprium			-		_
33						_
34	Total	\$	830,945		-\$	825,856
35						
36						
37						
38						
39 40						
41						
42						
43						
44						
45	SUPPORTING SCHEDULES:			RFC	AP SC	HEDULES:
46	B-2, pages 2			B-1	.,,	··
47	E-1			J ,		
48						

48 49 50

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments

Exhibit Rebuttal Schedule B-2 Page 2 Witness: Bourassa

						Profer	ma Adiustr	ments					Rebutai
Line			Adjusted at end of	1 Plant-in-		2 nulated	3	Cı	4 ustomer	Inte	<u>5</u> entionally Left		Adjusted at end of
No.			Test Year	Service	Depre	eciation	CIAC	Đ	eposits		Blank		Test Year
1	Gross Utility						•						
2	Plant in Service	\$	1,397,271	-								\$	1,397,271
3													
4	Less:												
5	Accumulated												
6	Depreciation		455,064			28							455,092
7													
В													
9	Net Utility Plant	_		_	_			_		_		_	
10	in Service	\$	942,207	\$ -	\$	(28) \$	•	\$	-	\$	-	\$	942,179
11													
12	Less:												
13	Advances in Aid of												
14 15	Construction		-										•
16	Contributions in Aid of												
17			197,973										197,973
18	Construction (CIAC)		197,973										197,973
19	Accumulated Amort of CIAC		(86,711)				,	4)					(86,715)
20	Accumulated Amon of CIAC		(00,711)				(~,					(00,110)
21	Customer Meter Deposits								5,065				5,065
22	Accumulated Deferred Income Taxes		_						5,005				3,003
23	Accumulated Dalerted Income Taxes		-										
24													
25	Plus:												
26	Unamortized Finance												
27	Charges		_										-
28	Prepayments		_										_
29	Materials and Supplies		-										
30	Allowance for Cash Working Capital		-										-
31	month of the Case. From the Capital												
32	Total	-\$	830,945	\$ -	\$	(28) \$		4 \$	(5,065)	\$	-	\$	825,856
22		بحضم									-		

SUPPORTING SCHEDULES: B-2, pages 3-5 E-1

RECAP SCHEDULES: B-1

Utility Source, LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 1

Exhibit Rebuttal Schedule B-2 Page 3 Witness; Bourassa

4:			E	lant-in-Service					
Line No.						A disconnector			
1				Δ	В	<u>Adjustments</u> C	Ω	E	
2				Adjustments	P	₹.	¥	<u>=</u>	Rebuttal
3			Adjusted	Required to	Intentionally	intentionally	Intentionally	Intentionally	Adjusted
4	Acct.		Original	Reconcile to	Left	Left	Left	Left	Original
5	No.	Description	Cost	Reconstruction	Blank	Blank	Blank	Blank	Cost
6	351	Organization Cost	224	CONTRACTOR IN COLUMN TO SERVICE SERVIC	E-MILIS.	- Harrie	<u>Grann</u>	<u> 17347 II</u>	2031
7	352	Franchise Cost							
á	353	Land and Land Rights	105,000						105,000
9	354	Structures & Improvements	56,350						56,350
10	355	Power Generation Equipment	2,879						2,879
11	360	Collection Sewers - Force							·-
12	361	Callection Sewers - Gravity	260,553						260,553
13	362	Special Collecting Structures							
14	363	Servcies to Customers	60,375						60,375
15	364	Flow Measuring Devices	•	-					
16	365	Flow Measuring Installations	-	-					•
17	366	Reuse Services	3,450	•					3,450
18	367	Reuse Meters and Meter Installation:	•						-
19	370	Receiving Wells	•	-					-
20	371	Pumping Equipment		•					•
21	374	Reuse Distribution Reserviors	•	•					•
22	375	Reuse Transmission and Distribution	•	•					•
23	360	Treatment & Disposal Equipment	903,992	-					903,992
24	381	Plant Sewers	•	•					•
25	382	Outfall Sewer Lines	-	-					•
26	389	Other Plant & Misc Equipment		-					
27	390	Office Furniture & Equipment	4,672	(421)					4,251
28	390.1	Computers & Software	-	421	•				421
29	391	Transportation Equipment	•	•					•
30	392	Stores Equipment	•	•					•
31 32	393 394	Tools, Shop & Garage Equipment Laboratory Equipment	•	•					•
33	395	Power Operated Equipment	•	•					•
34	396	Communication Equipment	-						•
35	397	Miscellaneous Equipment	•						•
36	398	Other Tangible Plant	-						_
37	380	TOTALS	1,397,271	\$ (0)		3 .	3 .	\$ -	\$ 1,397,271
38			,201,211	- (5)	•	•	•	•	¥ 1,557,£11
39	Plant-in	-Service per Books							\$ 1,397,271
40									
41	Increase	e (decrease) in Plant-in-Service							\$ -
42									
43	Adjustm	nent to Plant-in-Service							\$
44									

44
45 SUPPORTING SCHEDULES
46 B-2, pages 3.1
47

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 1 -A

Exhibit Rebuttal Schedule B-2 Page 3.1 Witness: Bourassa

Line No.					
1	Recond	cilation to Reconstructed Plant-in-Service			
2	ricconic	Station to reconstituees visitalia-in-octvice			
3			Adjusted	Plant	
4	Acct.		Orginal	Per	Adjustment
5	No.	Description	Cost	Reconstruction	Required
6	351	Organization Cost	<u> </u>	-	Tredouco
7	352	Franchise Cost		_	_
8	353	Land and Land Rights	105,000	105,000	_
9	354	Structures & Improvements	56,350	56,350	_
10	355	Power Generation Equipment	2,879	2,879	-
11	360	Collection Sewers - Force	-,0,0	2,0,0	-
12	361	Collection Sewers - Gravity	260,553	260,553	_
13	362	Special Collecting Structures	-		-
14	363	Servcies to Customers	60,375	60,375	_
15	364	Flow Measuring Devices		-	-
16	365	Flow Measuring Installations	-		
17	366	Reuse Services	3,450	3,450	-
18	367	Reuse Meters and Meter Installation	-	•	-
19	370	Receiving Wells	-	•	-
20	371	Pumping Equipment	-	•	-
21	374	Reuse Distribution Reserviors	-	-	-
22	375	Reuse Transmission and Distributio	-	-	-
23	380	Treatment & Disposal Equipment	903,992	903,992	-
24	381	Plant Sewers	-	-	-
25	382	Outfall Sewer Lines	-	-	-
26	389	Other Plant & Misc Equipment	-	-	-
27	390	Office Furniture & Equipment	4,672	4,251	(421)
28	390.1	Computers & Software	-	421	421
29	391	Transportation Equipment	-	-	-
30	392	Stores Equipment	-	-	-
31	393	Tools, Shop & Garage Equipment	-	•	-
32	394	Laboratory Equipment	-	-	-
33	395	Power Operated Equipment	-	-	•
34	396	Communication Equipment	-	-	-
35	397	Miscellaneous Equipment	•	-	-
36	398	Other Tangible Plant	-		
37		TOTALS \$	1,397,271	\$ 1,397,271	\$ (0)
38					
39					

40 <u>SUPPORTING SCHEDULE</u> 41 B-2, pages 3.2 - 3.8 42

				Per Decisi	on 70140					20	26				
	NARUC		Allowed		Accum.	Plent		Adjusted	Plant		Adjusted				
Line	Account	1	Deprec.	Plant at	Deprec, At	Additions	Plant	Plant	Retirements	Retirement	Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Bate	12/31/2005	12/31/2005	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
	 .														
1	351	Organization	0.00%		•	l		•			•		-	-	
2	352	Franchise	0.00%	•	•	l		•			-		-	-	-
3	353	Land	0.00%	105,000	•			•			-		•	105,000	
4	354	Structures & Improvements	3.33%	56,350	2,815			•			-		1,876	56,350	4,6
5	355	Power Generation	5,00%	2,879	216						•		144	2,879	3
6	360	Collection Sewer Forced	2.00%	-	- 1	i		•			-			-	
7	361	Collection Sewers Gravity	2.00%	260,553	7,817			•			-		5,211	260,553	13,0
8	362	Special Collecting Structures	2.00%	-	-								•	-	
9	363	Customer Services	2.00%	60,375	1,811			-			-		1,208	60,375	3,0
10	364	Flow Measuring Devices	10.00%	•				-			-		•		
10	365	Flow Measuring Installations	10.00%					-						-	
10	366	Reuse Services	2.00%	3,450	518						_		69	3,450	54
12	367	Reuse Meters And Installation	8.33%										-		
13	370	Receiving Wells	3.33%	-									_	_	
14	371	Pumping Equipment	12,50%	-	. [
15	374	Reuse Distribution Reservoirs	2.50%		1			-			-				
16	375	Reuse Trans. and Dist. System	2.50%					_					-	-	•
17	380	Treatment & Disposal Equipment	5.00%	890,485	66,786								44.524	890,485	111,3
16	381	Plant Sewers	5.00%					_					44,024	090,465	,,,,
19	382	Outfall Sewer Lines	3,33%		. 1			_			-		-	-	
20	389	Other Sewer Plant & Equipment	6,67%		- 1			_			-		-	•	•
21		Office Furniture & Equipment	6.67%								•		•	-	-
22		Computers and Softwere	20.00%	_				-			•		-	•	•
23		Transportation Equipment	20.00%								•		-	•	-
24		Stores Equipment	4.00%					•			-		•	•	-
25	393	Tools. Shop And Garage Equip	5.00%					-			-		•	•	
26		Laboratory Equip	10.00%	-				•			•		•	•	•
26		Power Operated Equipment	5.00%	•				-			•		•	-	
26 26		Communication Equip	10.00%	•	:			•			-		-	-	•
26		Miscelleneous Equipment	10.00%	•							. •		-	-	-
26		Other Tangible Plant	10.00%	•	- 1			•			•		•	•	
19	290	Other rangione Hank	10,00%	•	- 1			•			•		•	•	-
10			- 1	-	. 1			• .			-		-	•	•
		1	1	•	- 1			•			•		•	•	
11		1	- 1	-	l			•			-		•	-	-
2		ì	1	•	1			-			-		-	-	
13			- 1	-	1			-			-		-		
14		1	- 1		•			-			-			-	-
35		ľ	L												
36		TOTALS		1,379,092	79,962		•	•	•		-		53.032	1,379,092	132,99

												Witness: Boures	
Line		t	Allowed Depres.	Plant Additions	Plent	Adjusted Plant	Plant Retirements	20 Retirement	Adjusted Plant	Salvage	Depreciation	Plant	
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Par Books)	Adjustments	Retirements	A/D Only	(Calculated)	Salance	Accum. Deprec.
1	351	Organization	0.00%										
2	352	Franchise	0.00%			_			•		•	•	
3	353	Land	0.00%								-	-	-
4	354	Structures & Improvements	3.33%						•		•	105,000	-
5	355	Power Generation	5.00%						•		1,876	56.350	6,568
6	360	Collection Sewer Forced	2.00%						•		144	2,879	504
7	361	Collection Sewers Gravity	2.00%			-					•		-
8	362	Special Collecting Structures	2.00%			-					5,211	260,553	18,239
9	363	Contorner Services	2.00%						-		-	•	
10	364	Flow Measuring Devices	10.00%			-			•		1,208	60,375	4,226
10	366	Flow Measuring Installations	10.00%			•			-			•	
10	366	Rouse Services	2.00%			-					•	-	
12	367	Reuse Meters And Installation	8.33%			-			•		69	3,450	656
13	370	Receiving Wells	3.33%			•			-		-		-
14	371	Pumping Equipment	12.50%			-			•		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%						•		-	•	-
16	375	Reuse Trans. and Dist. System	2.50%			•			-		•	-	
17	380	Treatment & Disposal Equipment	5.00%			-			•		-		•
18	361	Plant Sewers	5.00%			•			•		44,524	890,485	155,835
19	382	Outfall Sewer Linus	3,33%						•		•	•	-
20		Other Sewer Plant & Equipment	6,67%			•			•		•		
21		Office Furniture & Equipment	6.67%			•			•			-	
22		Computers and Softwere	20.00%			-			-		-	•	-
23		Transportation Equipment	20,00%			•			-		-	-	
24		Stores Equipment	4.00%			-			•			-	
25		Tools, Shop And Garage Equip	5,00%			•			-		-	•	-
26		Laboratory Equip	10,00%			•			-		-	-	-
26		Power Operated Equipment				•			-		-	•	
26		Communication Equip	5.00%			-					•		
26		Miscellaneous Equipment	10.00%			•			-		•	-	
26		Other Tangible Plant	10.00%			-			•		•	-	
29	300	Ceres Language Plant	10.00%			-			-				
30		1	1			•			· -			-	
31		J				-							
32		j				-			-		-		
32 33		i	1			•			•			-	
33 34		ļ	- 1			-			•			_	
34 35		1	- 1			-			-			-	. 1
35 36		TOTALS											
~_		TOTALS		-						·	53,032	1,379,092	186.027

Exhibit Rebuttal Schedule B-2 Page 3.4 Witness: Bourassa

		_						20	108				
	NARU		Allowed	Plant		Adjusted	Plant		Adjusted				
	Accoun		Deprec.	Additions	Plant	Plant	Retirements	Retirement	Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	<u>Adjustments</u>	Additions	(Per Books)	Adjustments	Referements	A/D Only	(Calculated)	Batance	Depres
1	351	Organization	0.00%										
2	352	Franchise	0.00%			-			_		•	•	•
3	353	Land	0,00%									105,000	-
4	354	Structures & Improvements	3,33%						- :		1,876	56,350	
5	355	Power Generation	6,00%								144		8,4
6	360	Collection Sewer Forced	2.00%								144	2,879	6
7	361	Collection Sewers Gravity	2.00%			_			•				
8	362	Special Collecting Structures	2.00%						-		5,211	260,553	23,4
9	363	Customer Services	2,00%			_			•				
10	364	Flow Measuring Devices	10,00%			- 1			-		1,208	60,375	5,4
10	365	Flow Measuring Installations	10,00%						•		-	•	
10	366	Reuse Services	2.00%			-			-		-	. •	
12	367	Rouse Meters And Installation	8.33%			-			•		69	3,450	7
13	370	Receiving Wells	3.33%			-			-		•	-	
14	371	Pumping Equipment	12,50%			-			-		-	•	
15	374	Reuse Distribution Reservairs	2.50%			•			-		-	•	
16	375	Reuse Trans. and Dist. System	2,50%			•			•		-	-	
17	380	Treatment & Disposal Equipment	5.00%	13,507					•		•	-	
18	381	Plant Sewers	5,00%	13,507		13,507			•		44,862	903,992	200,8
19	382	Outlat Sewer Lines	3.33%			•			•		-	-	
20	389	Other Sewer Plant & Equipment	6,67%			•			•		•	-	
1		Office Furniture & Equipment							•		•	-	
2	390.1	Computers and Software	6.67%	2,552		2.552			•		85	2,552	
23	391		20.00%			•			-		-	•	
24	392	Transportation Equipment	20.00%			-			•		-	-	
5		Stores Equipment	4,00%			•			•		-		
		Tools, Shop And Garage Equip	5.00%			-			•		-		
6	394	Laboratory Equip	10.00%			-					-		
6	395	Power Operated Equipment	5.00%			•			•				
16		Communication Equip	10.00%			-							
26		Miscellaneous Equipment	10.00%			•					-		
6	388	Other Tangible Plant	10.00%						•		-		
9		1	- 1			-					-		
0			1										
1]						-				
2		į	· ·								_		
3		Ì	i i			-							
4													
5		1									-	-	
6		TOTALS	- 1	16,059		16,059				·	53,455	1,395,151	239.4

Utility Source, EEG - Wastewater Division Plant Additions and Retrements

Exhibit Robuttal Schedule 8-2 Page 3,5 Witness; Bourassa

	NARU								2009				
l in-	Accoun		Allowed	Plent		Adjusted	Plant		Adjusted			· · · · · · · · · · · · · · · · · · ·	
No.	No.		Deprec.	Additions	Plant	Plant	Retirements	Retrement	Plant	Salvage	Depreciation	Plant	Accum.
130.	<u>~0,</u>	Description	Rate	(Per Sooks)	Adjustments'	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Depres
1	351	Organization	0.00%										
5	352	Franchise	0.00%	1								•	
3	353	Land	0.00%			-			•		•		-
4	354	Structures & Improvements	3.33%								•	105,000	
5	355	Power Generation	5.00%			-					1,876	56,350	10.32
6	360	Collection Sewer Forced	2.00%			-			•		144	2,879	78
7	361	Collection Sewers Gravity	2.00%			•			-		•	•	
8	362	Special Collecting Structures	2.00%			•					5,211	260,553	28,66
9	363	Customer Services	2.00%			-							
10	364	Flow Measuring Devices	10,00%			-			. •		1,208	60,375	6,64
10	365	Flow Measuring Installations	10.00%			-							
10	366	Reuse Services	2.00%			•							
12	367	Reuse Meters And Installation	8.33%			•			-		69	3,450	79
13	370	Receiving Wells	3,33%			•							
14	371	Pumping Equipment	12.50%			-			-		-		
15	374	Reuse Distribution Reservoirs	2,50%			•			•				
16	375	Rouse Trans. and Dist. System	2.50%			•			•		-		
17	380	Treatment & Disposal Equipment	5.00%			-			-			-	
18	381	Plant Sewers									45,200	903,992	245,89
19	382	Outfall Sewer Lines	5.00%			•							
20	389	Other Sewer Plant & Equipment	3,33%						•				-
21	390	Office Furniture & Equipment	6,67%			-							
22		Computers and Software	6,67%			-					170	2,552	25
23			20.00%			-							-
24	392	Transportation Equipment	20.00%			-							
 		Stores Equipment	4.00%			-						-	
ro 16		Tools, Shop And Gurage Equip	5.00%			-							
6		Laboratory Equip	10.00%			•							
5 6		Power Operated Equipment	5.00%			-							
16 16		Communication Equip	10.00%			-							
		Miscellaneous Equipment	10.00%			-			-				
% 19	396	Other Tangible Plant	10.00%										
0		1				•							
1						-							
2		1	- 1								-		_
3			- 1										
		ľ	1			•							i i
5			L									•	•
6		TOTALS		•							53,876	1,396,151	293,360

								20	10				
	NARU		Allowed	Plent		Adjusted	Plant		Adjusted				
	Accoun		Deprec.	Additions	Plant	Plant	Retrements	Retirement	Plant	Salvage	Depreciation	Plant	Accum.
No.	<u>No.</u>	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1	351	Organizațion	0.00%	i									
2	352	Franchise	9.00%			_					•	•	•
3	353	Land	0,00%	l					-		•		•
4	354	Structures & Improvements	3.33%	l		_			•		-	105,000	
5	355	Power Generation	5,00%			_					1,876 144	56,350	12,19
6	380	Collection Sewer Forced	2.00%			-					144	2,879	93
7	351	Collection Sewers Gravity	2.00%	ĺ		-					5,211		
8	362	Special Collecting Structures	2.00%									260,563	33,87
9	363	Customer Services	2,00%						•		4 204		_:
10	364	Flow Measuring Devices	10.00%								1,206	60,375	7.84
10	365	Flow Measuring Installations	10.00%						•			-	
10	366	Reuse Services	2.00%			_							•
12	367	Reuse Meters And Installation	8.33%						-		69	3,450	86
3	370	Receiving Wells	3,33%						-		-	-	-
4	371	Pumping Equipment	12,50%						-		-	•	•
5	374	Reuse Distribution Reservoirs	2,50%								•	•	•
6	375	Reuse Trans, and Dist. System	2.50%			_			•		•	•	•
7	380	Treatment & Disposal Equipment	5.00%								45 000		•
8	381	Plant Sewers	5.00%			_			-		45,200	903,982	291,09
9	382	Outfall Sewer Lines	3.33%						-		-	-	•
0	389	Other Sewer Plant & Equipment	6.67%			_			-		-	-	-
1	390	Office Furniture & Equipment	6.67%			_			•			•	•
2	390,1	Computers and Software	20.00%						-		170	2,552	42
3	391	Transportation Equipment	20.00%						•		-	•	•
4	392	Stores Equipment	4.00%			-			-		•	-	-
5		Tools, Shop And Garage Equip	5,00%						•		•	•	-
6		Laboratory Equip	10.00%						-		-	-	•
Б	395	Power Operated Equipment	5.00%			-			•		•	-	
5		Communication Equip	10.00%						•		-	•	
3		Miscellaneous Equipment	10.00%						•		-	• .	•
5		Other Tangible Plant	10.00%						•		-	-	•
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)		1	i						•		•	•	•
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		ŀ	- 1			-			-		•	-	-
		1	1			-			•		•	-	-
;		1	- 1			•			•		•	-	•
		TOTALS	_ ⊢								53,876	1,395,151	347,237

								20	221			~	
	NARUC		Allowed	Plant		Adjusted	Plant		Adjusted				
Line	Account		Deprec.	Additions	Plent	Plant	Retirements	Retirement	Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adiustments	Retirements	A/D Only	(Calculated)	Balance	Depres.
1	351	Organization	0.00%										_
2	352	Franchise	0.00%								-		
3	353	Land	0.00%									105,000	
4	354	Structures & Improvements	3.33%			-					1,876	56,350	14,073
5	355	Power Generation	5.00%								144	2,879	1,080
6	360	Collection Sewer Forced	2.00%								-	-	
7	361	Collection Sewers Gravity	2.00%			-					5,211	260,553	39,083
8	362	Special Collecting Structures	2.00%										
9	363	Customer Services	2.00%								1,208	60.375	9,058
10	364	Flow Measuring Devices	10.00%								-	-	
10	365	Flow Measuring Installations	10.00%						-				-
10	366	Rause Services	2.00%								69	3,450	932
12	367	Reuse Meters And Installation	8.33%									-	-
13	370	Receiving Wells	3.33%			-					-	-	
14	371	Pumping Equipment	12,50%			-							
15	374	Reuse Distribution Reservoirs	2.50%									-	
16	375	Reuse Trans. and Dist. System	2.50%									•	-
17	360	Treatment & Disposal Equipment	5.00%			-					45,200	903,992	336,296
18	361	Plant Sewers	5.00%			-			-		-	-	-
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	•
20	389	Other Sewer Plant & Equipment	6.67%			-							•
21	390	Office Furniture & Equipment	6.67%			•			-		170	2,552	596
22	390.1	Computers and Software	20.00%			-			-		•	-	•
23	391	Transportation Equipment	20.00%			-			-		-	•	-
24	392	Stores Equipment	4.00%			•			-		-	•	- 1
25	393	Tools, Shop And Garage Equip	5,00%			•			•		-	-	•
26	394	Laboratory Equip	10,00%			-			-		•	-	-
26		Power Operated Equipment	5.00%			-			-		•	•	-
26	396	Communication Equip	10.00%			•			-		•.	-	-
26		Miscellaneous Equipment	10.00%			•			-		•	•	-
26	398	Other Tangible Plant	10.00%			-			-		•	•	-
29			l l			•			•		-	•	
30		1]			-			-		•	-	-
31		ı	Į.			•			•		•	•	•
32		i							•		-	-	- 1
33			- 1			-			-		•	-	•
34			- 1			•			•		•	•	•
35		[i										
36	_	TOTALS			•		•		•		53,878	1,395,151	401,115

	NARU	c	Allowed	Plant		1.0		20	112				
ine No.	Accour	Description	Deprec.	Additions (Per Books)	Plant Adizetmente	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adiateknents	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum
1	351	Organization	0.00%										
2	352	Franchise	0.00%						•			-	
3	353	Land	0.00%						•		-		
•	354	Structures & Improvements	3,33%						•		-	105,000	
	355	Power Generation	5.00%			-					1,876	56,350	15
	360	Collection Sewer Forced	2,00%			•					144	2,879	1
•	361	Collection Sewers Gravity	2.00%			•			-		-		
•	362	Special Collecting Structures	2.00%			•			•		5,211	260,553	44
	363	Customer Services	2,00%			•			-				
)	364	Flow Measuring Devices	10.00%			•					1,208	60,375	10
•	365	Flow Meesuring Installations	10,00%			•							
	366	Reuse Services	2.00%			•							
	367	Reuse Meters And Installation	6.33%			-					69	3,450	1
	370	Receiving Wells	3.33%									-,	
	371	Pumping Equipment	12,50%										
		Reuse Distribution Reservoirs	2.50%										
		Reuse Trans. and Dist. System											
		Treatment & Disposal Equipment	2.50%			-							
		Plant Sewers	5.00%								45,200	903,992	
	382	Outlet Sewer Lines	5.00%								40.200	203,302	381,
		Other Sewer Plant & Equipment	3.33%									•	
		Office Furniture & Equipment	6.67%			-						•	
		Computers and Software	6.67%	1,696		1,698					227	4,251	
			20,00%	421		421					42		
		Transportation Equipment	20.00%								42	421	
		Stores Equipment	4.00%						-		•	-	
		Tools, Shop And Garage Equap	5,00%								•		
		Laboratory Equip	1D,00%						•		-		
		Power Operated Equipment	5.00%						•		•	-	
		Communication Equip	10.00%									-	
	387	Miscellaneous Equipment	10.00%						•			-	
	398	Other Tangible Plant	10,00%						•		-	-	
		1							-		-		
			- 1			-			•		-		
		Į.				-					-	-	
		ı	i			-			•			-	
		l l				-			•			-	
		1	- 1			•			-				
			- 1			•			-			-	
	1	TOTALS	⊢ −	2									_
-				2,119		2119					53,977	1,397,271	455,0

Utility Source, LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 2

Accumulated Depreciation

Exhibit Rebuttal Schedule 8-2 Page 4 Witness: Bourassa

Line									
No.						Adjustments			
1				Δ	<u>8</u>	<u>C</u>	Ω	E	
2				Adjustments	_	~	-	-	Rebuttal
3			Adjusted	Required to	Intentionally	Intentionally	Intentionally	Intentionally	Adjusted
4	Acct.		Accum.	Reconcile to	Left	Left	Left	Left	Accum.
5	No.	Description	Depr.	Reconstruction	Blank	Blank	Blank	Blank	Depr.
6	351	Organization Cost		-		 .		- HILLE	MANU.
7	352	Franchise Cost	-						
8	353	Land and Land Rights	-	-					
9	354	Structures & Improvements	15,950	•					15,950
10	355	Power Generation Equipment	1,224						1,224
11	360	Collection Sewers - Force		•					
12	361	Collection Sewers - Gravity	44,294	-					44,294
13	362	Special Collecting Structures	10,264	•					10,264
14	363	Servoies to Customers		•	•				
15	364	Flow Measuring Devices	1,001						1.001
16	365	Flow Measuring Installations	•	-					
17	366	Reuse Services	•	-					
18 19	367	Reuse Meters and Meter Installations	•	-					-
20	370 371	Receiving Wells		•					_
21	371	Pumping Equipment	381,495	-					381,495
22	375	Reuse Distribution Reserviors	•	-					-
23	380	Reuse Transmission and Distribution		-					
23	381	Treatment & Disposal Equipment Plant Sewers	837	(14)					823
25	382	Outfall Sewers Lines	-	42					42
26	389	Other Plant & Misc Equipment	•						-
27	390		•	•					-
28	390.1	Office Furniture & Equipment Computers & Software	•	•					-
29	391	Transportation Equipment	•	•					
30	392	Stores Equipment	-	•					
31	393	Tools, Shop & Garage Equipment	-	•					•
32	394	Laboratory Equipment	-	•					•
33	395	Power Operated Equipment	•	•					•
34	396	Communication Equipment	-	•					-
35	397	Miscellaneous Equipment	•	•					•
36	398	Other Tangible Plant	•	•					-
37	000	TOTALS	455,064	\$ 28 \$					
38		TOTALS	400,004	• 20 •	•	\$ - :		\$ -	\$ 455,092
39	Accume	flated Depreciation per Books							
40	,	and Copiconnon per Guoka						-	\$ 455,064
41	increase	(decrease) in Accumulated Depreciation	n						
42		((Coordage) in Modernblated Depression	••					-	\$ 28
43	Adjustm	ent to Accumulated Depreciation							_
44	-,							-	\$ 28
45	SUPPO	RTING SCHEDULES							
46	B-2, pag								
47	, pug								

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 2 -A

Exhibit Rebuttal Schedule B-2 Page 4.1 Witness: Bourassa

Line					
No.					
1	Recond	cilation to Reconstructed Accumulated	Depreciation		
2				Accumulated	
3			Adjusted	Depreciation	
4	Acct.		Accumulated	Per Plant	Adjustment
5	No.	Description	Depreciation	Reconstruction	Required
6	351	Organization Cost		-	-
7	352	Franchise Cost			
8	353	Land and Land Rights	-		-
9	354	Structures & Improvements	15,950	15,950	-
10	355	Power Generation Equipment	1,224	1,224	~
11	360	Collection Sewers - Force	•	.,	-
12	361	Collection Sewers - Gravity	44,294	44,294	_
13	362	Special Collecting Structures	10,264	10,264	-
14	363	Servcies to Customers	· •		_
15	364	Flow Measuring Devices	1,001	1,001	-
16	365	Flow Measuring Installations		-	-
17	366	Reuse Services	•	-	-
18	367	Reuse Meters and Meter Installation		-	•
19	370	Receiving Wells	-	•	-
20	371	Pumping Equipment	381,495	381,495	_
21	374	Reuse Distribution Reserviors	•	•	-
22	375	Reuse Transmission and Distributio	-	-	-
23	380	Treatment & Disposal Equipment	837	823	(14)
24	381	Plant Sewers	-	42	42
25	382	Outfall Sewer Lines		-	-
26	389	Other Plant & Misc Equipment	-	-	-
27	390	Office Furniture & Equipment	-	-	-
28	390.1	Computers & Software	-	-	-
29	391	Transportation Equipment	-	-	•
30	392	Stores Equipment	-	-	-
31	393	Tools, Shop & Garage Equipment	-	-	-
32	394	Laboratory Equipment	-	-	-
33	395	Power Operated Equipment	-	-	-
34	396	Communication Equipment	-	-	•
35	397	Miscellaneous Equipment	-	•	-
36	398	Other Tangible Plant			
37		TOTALS	#REF!	\$ 455,092	\$ 28
20					

SUPPORTING SCHEDULE B-2, pages 3.2 - 3.8

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment 3

Exhibit Rebuttal Schedule B-2 Page 5.0 Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

		Gross	۸۰۰	
				cumulated ortization
Computed balance at end of test year	e			
,	J	197,973	\$	86,715
Adjusted balance at end of test year	¢	107 072	•	
,	<u></u>	191,913	<u>\$</u>	86,711
Increase (decrease)	\$		•	
,	•	-	Ð	4
Adjustment to CIAC/AA CIAC	\$	_	•	(4)
Label		32		(4)
		Ja		3b
	Adjustment to CIAC/AA CIAC	Adjusted balance at end of test year Increase (decrease) \$ Adjustment to CIAC/AA CIAC \$	Adjusted balance at end of test year \$ 197,973 Increase (decrease) \$ - Adjustment to CIAC/AA CIAC \$ -	Computed balance at end of test year \$ 197,973 \$ Adjusted balance at end of test year \$ 197,973 \$ Increase (decrease) \$ - \$ Adjustment to CIAC/AA CIAC \$ - \$

SUPPORTING SCHEDULES

19 <u>SUF</u> 20 E-1

Line

21 B-2, page 5.1

 Utility Source, LLC - Wastewater Division Test Year Ended December 31, 2012 Contributions-in-aid of Construction (CIAC)

Exhibit Rebuttal Schedule 8-2 Page 5.1 Witness: Bourassa

Line	
No.	
1	
2	
3	
4	
5	CIAC
6	
7	Amortization Decision No. 70140
8	Amortization Rate
9	Amortization (1/2 yr convention)
10	Accumulated Amortization
11	
12	Net CIAC
13	

{	2006		2007		2008		2009	
Balance 12/31/2005	Additions	Balance 12/31/2006	Additions	Balance 12/31/2007	Additions	Balance 12/31/2008	Additions	Balance 12/31/2009
1								
197,973		197,973		197,973		197,973		197,973
12,425								
		4.16%		4.16%		4.14%		4.189
		8,240		8,240		8,203		8,268
		20,665		28,906		37,108	•	45,376
185,548		177,308		169,067		160,865		152,597

10	Accumulated Amortization
11	
12	Net CIAC
13	
14	
15	
16	
17	
18	
19	
20	CIAC
21	
22	
23	
24	Amortization Rate
25	Amortization (1/2 yr convention)
26	Accumulated Amortization
27	
28	Net CIAC
29	
30	

2010		20	11	2012	
Additions	Balance 12/31/2010	Additions	Balance 12/31/2011	Additions	Balance 12/31/2012
-	197,973	-	197,973	-	197,973
	4.18%		4.18%		4.189
	8,268		8,268		8,269
	70,178		78,446		86,715
	127,795		119,527		111,258

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment 4 Customer Deposits

Exhibit Rebuttal Schedule B-2 Page 6 Witness: Bourassa

	<u>Customer Deposits</u>		
Line			
No.			
1			
2			
2 3			
3	01.11		
4	Staff recommended balance	\$	5,065
5			
6	Book balance at end of test year	\$	-
7			
8	Increase (decrease)	\$	5,065
9	,	Ψ	5,005
10			
11			
12			
13			
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	Testimony		
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
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34			
35			

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Computation of Working Capital

Exhibit Rebuttal Schedule B-5 Page 1 Witness: Bourassa

Line			
No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	16,175
3	Pumping Power (1/24 of Pumping Power)	Ψ	1,092
4	Purchased Water (1/24 of Purchased Water	۳۱	1,092 527
5	Prepaid Expenses	''	521
6	Topala Expolicos		
7			
8			
9	Total Working Capital Allowance	\$	17,795
10	retail training dupital raiowance		17,795
11			
12	Working Capital Requested	\$	
13	3 10,000		
14			
15			
16			
17		Adiu	sted Test Year
18	Total Operating Expense	\$	202,851
19	Less:	*	202,001
20	Income Tax	\$	(15,616)
21	Property Tax	•	4.401
22	Depreciation		45,791
23	Purchased Water		12,659
24	Pumping Power		26,213
25	Allowable Expenses	\$	129,403
26	1/8 of allowable expenses	\$	16,175
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDU	JLES:
30	E-1	B-1	
31			
32			
33			
34			
35			
26			

36 37

38 39 40

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Income Statement

Rebuttal Schedule C-1

Exhibit

Page 1	
Witness:	Bourassa

Line <u>No.</u> 1	Revenues		Fest Year Adjusted <u>Results</u>	A	djustment		Rebuttal Test Year Adjusted Results		Proposed Rate Increase	,	Rebuttal Adjusted with Rate Increase
2	Flat Rate Revenues	\$	_	\$	_	\$	-	\$		\$	
3	Unmetered Water Revenues	Ψ	116,023	Ψ	•	Φ	116,023	Ф	209,436	Þ	325.458
4	Other Water Revenues		5,261		(1.820)		3,441		209,436		
5		<u>-s</u>	121,284	-\$	(1,820)	S	119,464	S	209,436	\$	3,441
6	Operating Expenses	•	121,204	Ψ	(1,020)	Ψ	115,404	Ф	209,436	Ф	328,900
7	Salaries and Wages	\$				\$				\$	
8	Purchased Water	•	_			Ψ	•			Φ	-
9	Purchased Power		26,213		-		26 242				-
10	Sludge Removal		12.659		-		26,213				26,213
11	Chemicals		5,400		•		12,659				12,659
12	Materials and Supplies				-		5,400				5,400
13	Office Supplies and Expense		7,187		-		7,187				7,187
14	Contractual Services - Accounting		2,446		-		2,446				2,446
15	Contractual Services - Accounting		20,135		-		20,135				20,135
16	Contractual Services - Professional Contractual Services - Maintenance		1,920		-		1,920				1,920
17			-		-						-
18	Contractual Services - Other Water Testing		46,650				46,650				46,650
19	Rents		5,669		8,858		14,527				14,527
20			-		-						-
21	Transportation Expenses		3,250		(1,750)		1,500				1,500
21	Insurance - General Liability		2,186		-		2,186				2,186
23	Insurance - Health and Life		-		-		•				•
	Reg. Comm. Exp Other				-						-
24 25	Reg. Comm. Exp Rate Case		10,000		6,667		16,667				16,667
	Miscellaneous Expense		13,152		(2,366)		10,786				10,786
26	Bad Debt Expense		<u>.</u>		-		-				-
27	Depreciation and Amortization Expense		45,744		48		45,791				45,791
28	Taxes Other Than Income		•		•		•				-
29	Property Taxes		4,476		(75)		4,401		2,576		6,977
30	Income Tax		(13,545)		(2,071)		(15,616)		32,628		17,012
31											
32	Total Operating Expenses	<u>\$</u>	193,541	_\$		\$	202,851		35,204	\$	238,056
33	Operating Income	\$	(72,257)	\$	(11,130)	\$	(83,387)	\$	174,232	\$	90,844
34	Other Income (Expense)										
35	Interest Income		-		-		-				-
36	Other income		-		-		-				-
37	Interest Expense		•		-		-				-
38	Other Expense		-		-		-				-
39											
40	Total Other Income (Expense)	\$		\$		\$		\$		\$	
41	Net Profit (Loss)	\$	(72,257)	\$	(11,130)	\$	(83,387)	\$	174,232	\$	90,844
42											
43	SUPPORTING SCHEDULES:						F	REC	AP SCHED	<u>JL</u> ES	S :
44	C-1, page 2							A-1			_
45	E-2										
46											

Utility Source, LLC - Wastewater Division Test Year Ended December 31, 2012 Income Statement Exhibit Rebuttal Schedule C-1 Page 2.1 Wilness: Bourassa

Line		- 1	IEL>>>> Fest Year Adjusted	1		2 Property] Rate Case		4 Revenue	<u>€</u> Water	<u>\$</u> Auto	I Telephone
No.			Results	Depreciati	on	Taxes		Expense		diustment	Iestina	Expense	Expense
1	Revenues		TARREST	Depter	ML:	18064		WANGING.	4	MANAGEMENT IN	Trans	PORAINA	PAREITSE
ż	Flat Rate Revenues	5	-										
3	Measured Revenues	•	116,023										
4	Other Water Revenues		5.261							(1,820)			
5	***************************************	\$	121,284	\$		· ·	3		3	(1,820) \$		\$.	2 .
6	Operating Expenses	•	12.,20	•			•		•	() +		•	•
7	Salaries and Wages	\$	_										
à	Purchased Water	•	-										
9	Purchased Power		26,213										
10	Sludge Removal		12,659										
11	Chemicals		5,400										
12	Materials and Supplies		7.187										
13	Office Supplies and Expense		2,446										
14	Contractual Services - Accounting		20,135										
15	Contractual Services - Professional		1,920										
16	Contractual Services - Maintenance		,,,,,,,										
17	Contractual Services - Other		46,650										
18	Water Testing		5,669								8,858		
19	Rents		-								0,000		
20	Transportation Expenses		3,250									(1,750)	
21	Insurance - General Liability		2,186									(1,100)	
22	Insurance - Health and Life		-,										
23	Reg. Comm. Exp Other		-										
24	Reg. Comm. Exp Rate Case		10,000					6,667					
25	Miscellaneous Expense		13,152					0,00.					(2,366)
26	Bad Debt Expense		10,102										(2,000)
27	Deprec. and Amort. Exp.		45,744		48								
28	Taxes Other Than Income												
29	Property Taxes		4.476			(75)	١						
30	Income Tax		(13,545)			(,						
31	media i ax		(15,545)										
32	Total Operating Expenses	3	193,541	•	48 \$	(75)	1	6,667	-	. 5	8,858	\$ (1,750)	\$ (2,366)
33	Operating Income	÷	(72.257)		48) \$			(6,667)		(1,820) \$	(8,858)		
34	Other Income (Expense)	•	(,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	• (,		•	(0.007)	•	(1,020)	(0,000)	.,,,,,	2,000
35	Interest income												
36	Other income												
37	Interest Expense		-										
38	Other Expense												
39													
40	Total Other Income (Expense)	2		\$ -	•		5		3	. 3		s :	
41	Net Profit (Loss)		(72,257)		(8) S	75	3	(6,667)	┰	(1,820) \$	(8.858)		2,366
42	1 ()	<u></u>	1.5.501)		171.9		-7	(0,001)		(1,000)	(0,000)		2,300
43	SUPPORTING SCHEDULES:												
44	C-2												
45	E-2												

Utility Source, LLC - Wastewater Division Test Year Ended December 31, 2012 Income Statement

Exhibit Rebuttal Schedule C-1 Page 2.2 Witness: Bourassa

Line No.	Revenues	In	§ tentionally Left Blank		9 Intentionally Left <u>Blank</u>	li	10 ntentionally Left Blank		11 Income Taxes		Rebuital Test Year Adjusted Results	Proposed Rate Increase		Rebuttal Adjusted with Rate increase
2	Flat Rate Revenues Measured Revenues									\$			s	
4	Other Water Revenues										116,023	209,436	•	325,458
5	ORIGI AARIEL VEASURER	-								_	3,441			3,441
6	Operating Expenses	•	•	\$	•	\$	•	\$	-	\$	119,464	\$ 209,436	\$	328,900
7	Salaries and Wages													
8	Purchased Water									3	-		\$	•
9	Purchased Power													
10	Słudge Removal										26,213			26,213
11	Chemicals										12,659			12,659
12	Materials and Supplies										5,400 7,187			5,400
13	Office Supplies and Expense										2,446			7,187
14	Contractual Services - Accounting										20,135			2,446
15	Contractual Services - Professional										1,920			20,135
16	Contractual Services - Maintenance										1,920			1,920
17	Contractual Services - Other										46,650			46.550
18	Water Testing										14,527			14,527
19	Rents													14,327
20 21	Transportation Expenses										1,500			1,500
22	Insurance - General Liability										2,186			2,186
23	Insurance - Health and Life										-,			2,100
24	Reg. Comm. Exp Other													
25	Reg. Comm. Exp Rate Case										16.667			16.667
26	Miscellaneous Expense Bad Debt Expense										10,786			10,786
27	Depres and Amort, Exp.													,,,,,,,
28	Taxes Other Than Income										45,791			45.791
29	Property Taxes										•			
30	Income Tax										4,401	2,576		6,977
31	and the same								(2,071)		(15,616)	32,628		17,012
	Total Operating Expenses	-		\$										
33	Operating Income	\$		2	<u>_</u>	<u>.</u>	<u> </u>	<u>.</u>	(2,071)		202,851		\$	238,056
34 (Other Income (Expense)	•	•	•	•	,	•	5	2,071	\$	(83,387)	174,232	\$	90,844
35	interest Income													
36	Other income										-			•
37	Interest Expense										-			-
38	Other Expense										-			-
39											-			•
40 1	otal Other Income (Expense)	3		\$		3		-		-	<u> </u>		_	
	Vet Profit (Loss)	\$	· ·	š		3		÷	2.071	<u>:</u> -	(83,387) \$	174,232	<u>.</u>	
42						•		-	2,01	•	(03,307) 3	1/4,232	<u>. </u>	90,844
43	SUPPORTING SCHEDULES:										-	ECAD 60:		
44	C-2											ECAP SCHE	M	-8
45	E-2										·	-1, page 1		

Exhibit Rebuttal Schedule C-2 Page 1 Witness: Bourassa

Line			Adjustmer	nts to Revenues and	d Expenses			
No.		<u>1</u>	<u>2</u>	<u>3</u>	4	<u>5</u>	<u>6</u>	
1 2 3		Depreciation Expense	Property Taxes	Rate Case Expense	Revenue Adjustment	Water <u>Testing</u>	Auto Expense	Subtotal
4	Revenues	-			(1,820)	-	-	(1,820)
5 6	Expenses	48	(75)	6,667	-	8,858	(1,750)	13,747
7	·		· · · · · · · · · · · · · · · · · · ·					
8	Operating							
9	Income	(48)	75	(6,667)	(1.820)	(8.858)	1,750	(15,567)
10								
11	Interest							
12	Expense						-	-
13	Other							
14	Income /							-
15	Expense							
16								
17	Net Income	(48)	75	(6,667)	(1,820)	(8,858)	1,750	(15,567)
18								
19								
20				ts to Revenues and				
21		7	<u>8</u>	9	<u>10</u>	<u>11</u>		Subtotal
22			Intentionally	Intentionally	Intentionally			
23		Telephone	Left	Left	Left	Income		
24		Expense	Blank	<u>Blank</u>	<u>Blank</u>	<u>Taxes</u>		
25	Revenues	-	-	•	•	-		(1,820)
26								
27	Expenses	(2,366)	<u> </u>		· · · · · · · · · · · · · · · · · · ·	(2,071)		9,310
28								
29	Operating							
30	Income	2,366	-	•	-	2,071	-	(11,130)
31								
32	Interest							
33	Expense							•
34 35	Other							
	Income /							-
36 37	Expense			····				
37 38	Net Income	2,366	_	_	_	2,071	_	(11,130)
	HET HICKING	2,300			· · · · · · · · · · · · · · · · · · ·	2,011		(11,130)
39								
40								

Exhibit Rebuttal Schedule C-2 Page 2 Witness: Bourassa

Depreciation Expense

Line							
No.							
1							
2					Adjusted		
3	Acct.		Original	Non-depreciable/	Original	Proposed	Depreciation
4	No.	Description	Cost	Fully Depreciated	Cost	Rates	Expense
5	351	Organization Cost			<u> </u>	0.00%	Expense
6	352	Franchise Cost		_		0.00%	-
7	353	Land and Land Rights	105,000	(105,000)		0.00%	
8	354	Structures & Improvements	56,350	(100,500)	56,350	3.33%	1.876
9	355	Power Generation Equipment	2,879		2,879	5.00%	1,376
10	360	Collection Sewers - Force	2,570		2,073	2.00%	-
11	361	Collection Sewers - Gravity	260,553		260,553	2.00%	5.211
12	362	Special Collecting Structures	200,000		200,555	2.00%	3,211
13	363	Servcies to Customers	60,375		60,375	2.00%	1,208
14	364	Flow Measuring Devices	00,575		60,375	10.00%	1,208
15	365	Flow Measuring Installations			•	10.00%	•
16	366	Reuse Services	3,450		3.450	2.00%	-
17	367	Reuse Meters and Meter Installations	3,430		3,430		69
18	370	Receiving Wells	•		•	8.33% 3.57%	•
19	371	Pumping Equipment	•		•		•
20	374	Reuse Distribution Reserviors	•		•	10.00%	•
21	374	Reuse Transmission and Distribution	•		-	2.50%	•
22	375					2.00%	
22		Treatment & Disposal Equipment	903,992		903,992	5.00%	45,200
	381	Plant Sewers	-	•	-	5.00%	-
24	382	Outfall Sewer Lines	-		-	3.33%	•
25	389	Other Plant & Misc Equipment				6.67%	-
26	390	Office Furniture & Equipment	4,251		4,251	6.67%	284
27	390.1	Computers & Software	421		421	20.00%	84
28	391	Transportation Equipment	•		•	20.00%	-
29	392	Stores Equipment	-		-	4.00%	•
30	393	Tools, Shop & Garage Equipment	-		•	10.00%	-
31	394	Laboratory Equipment	-		•	10.00%	-
32	395	Power Operated Equipment	-		-	5.00%	•
33	396	Communication Equipment	•		•	10.00%	-
34	397	Miscellaneous Equipment	-		•	10.00%	•
35	398	Other Tangible Plant	-		•	10.00%	-
36							
37							
38						10.00% _	
39		TOTALS	\$ 1,397,271	\$ (105,000)	\$ 1,292,271		\$ 54,075
40							
41					Gross CIAC	Amort. Rate	
42	Less: An	nortization of Contributions			\$ 197,973	4.1845%	\$ (8,284)
43	Total De	preciation Expense				_	\$ 45,791
44							
45	Adjusted	Test Year Depreciation Expense					45,744
46		•				_	
47	Increase	(decrease) in Depreciation Expense					48
48		•				-	
49	Adjustme	ent to Revenues and/or Expenses				,	\$ 48
50	-,					***	
51	SUPPOR	RTING SCHEDULE					
52	B-2, page				*Fully Depreciated	1	
	, pag	- -			. any wopiociate	•	

Exhibit Rebuttal Schedule Page 3 Witness: Bourassa

Property Taxes

No. DESCRIPTION as adjusted Recommended Company Adjusted Test Year Revenues \$ 119,464 \$ 119,464 \$ 119,464 \$ 119,464 \$ 119,464 \$ 119,464 \$ 28,928 \$ 238,928 \$ 2	Line			Test Year	ſ	Company
Company Adjusted Test Year Revenues \$ 119,464 \$ 119,464 \$ 119,464 \$ 119,464 \$ 2	No.	DESCRIPTION				•
2 2 2 2 2 3 3 2 3 3						
Subtotal (Line 1 * Line 2)	2	· · · ·	•	•	•	2
4 Company Recommended Revenue 119,464 328,900 5 Subtotal (Line 4 + Line 5) 358,391 567,827 6 Number of Years 3 3 7 Three Year Average (Line 5 / Line 6) 119,464 189,276 8 Department of Revenue Mutilplier 2 2 9 Revenue Base Value (Line 7 * Line 8) 238,928 378,551 10 Plus: 10% of CWIP (intentionally excluded) - - 11 Less: Net Book Value of Licensed Vehicles 421 421 12 Full Cash Value (Line 9 + Line 10 - Line 11) 238,507 378,130 13 Assessment Ratio 20.0% 20.0% 14 Assessment Value (Line 12 * Line 13) 47,701 75,626 15 Composite Property Tax Rate - Obtained from ADOR 9.2262% 9.2262% 16 Test Year Adjusted Property Tax Expense (Line 14 * Line 15) \$ 4,401 \$ 6,977 17 Tax on Parcels \$ 4,401 \$ 6,977 18 Total Property Taxes (Line 16 + Line 17) \$ 4,401 \$ 6,977 20 Adjustment to Test Year Property Taxes (Line 18 - Line 19) \$ 6,977 21 Property Tax on Company Recommended Revenue (Line 16 + Line 17) \$ 6,977 22 Property Tax On Company Recommended Revenue (Line 18)	3	Subtotal (Line 1 * Line 2)				238.928
5 Subtotal (Line 4 + Line 5) 358,391 567,827 6 Number of Years 3 3 7 Three Year Average (Line 5 / Line 6) 119,464 189,276 8 Department of Revenue Mutilplier 2 2 9 Revenue Base Value (Line 7 ° Line 8) 238,928 378,551 10 Plus: 10% of CWIP (intentionally excluded) - - 11 Less: Net Book Value of Licensed Vehicles 421 421 12 Full Cash Value (Line 9 + Line 10 - Line 11) 238,507 378,130 13 Assessment Ratio 20.0% 20.0% 14 Assessment Value (Line 12 ° Line 13) 47,701 75,626 15 Composite Property Tax Rate - Obtained from ADOR 9.2262% 9.2262% 16 Test Year Adjusted Property Tax Expense (Line 14 ° Line 15) \$ 4,401 \$ 6,977 17 Tax on Parcels - - 18 Total Property Taxes (Line 16 + Line 17) \$ 4,401 \$ 6,977 19 Adjusted Test Year Property Taxes (Line 18 - Line 19) \$ 4,476 \$ 6,977 20 Adjustment to Test Year Property Taxes (Line 18 - Line 19) \$ 6,977 \$ 6,977 21 Property Tax on Company Recommended Revenue (Line 16 + Line 17) \$ 6,977 \$ 6,977	4	Company Recommended Revenue				
6 Number of Years 3 3 7 Three Year Average (Line 5 / Line 6) 119,464 189,276 8 Department of Revenue Mutilplier 2 2 9 Revenue Base Value (Line 7 ° Line 8) 238,928 378,551 10 Plus: 10% of CWIP (intentionally excluded) - - 11 Less: Net Book Value of Licensed Vehicles 421 421 12 Full Cash Value (Line 9 + Line 10 - Line 11) 238,507 378,130 13 Assessment Ratio 20,0% 20,0% 14 Assessment Value (Line 12 ° Line 13) 47,701 75,626 15 Composite Property Tax Rate - Obtained from ADOR 9,2262% 9,2262% 16 Test Year Adjusted Property Tax Expense (Line 14 ° Line 15) \$ 4,401 \$ 6,977 17 Tax on Parcels - - 18 Total Property Taxes (Line 16 + Line 17) \$ 4,401 \$ 6,977 19 Adjusted Test Year Property Taxes \$ 4,476 \$ 4,476 20 Adjustment to Test Year Property Taxes (Line 18 - Line 19) \$ 6,977 21 Property Tax on Company Recommended Revenue (Line 16 + Line 17) \$ 6,977 22 Property Tax On Company Recommended Revenue (Line 18) \$ 4,401 24 Increase in Property Tax Due to Increase in Revenue R	5	· ·				
7 Three Year Average (Line 5 / Line 6) 8 Department of Revenue Mutilplier 9 Revenue Base Value (Line 7 ° Line 8) 10 Plus: 10% of CWIP (intentionally excluded) 11 Less: Net Book Value of Licensed Vehicles Full Cash Value (Line 9 + Line 10 - Line 11) Assessment Ratio 20.0% Assessment Value (Line 12 ° Line 13) Composite Property Tax Rate - Obtained from ADOR Test Year Adjusted Property Tax Expense (Line 14 ° Line 15) Total Property Taxes (Line 16 + Line 17) Adjusted Test Year Property Taxes Adjustment to Test Year Property Taxes (Line 18 - Line 19) Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement 119,464 189,276 2 22 22 23,928 378,551 421 421 421 421 421 421 421	6	Number of Years		, .		3
Department of Revenue Mutilplier 2 2 2 2 9 Revenue Base Value (Line 7 ° Line 8) 238,928 378,551 10 Plus: 10% of CWIP (intentionally excluded)	7	Three Year Average (Line 5 / Line 6)		_		
9 Revenue Base Value (Line 7 * Line 8) 238,928 378,551 10 Plus: 10% of CWIP (intentionally excluded) 11 Less: Net Book Value of Licensed Vehicles 421 421 12 Full Cash Value (Line 9 + Line 10 - Line 11) 238,507 378,130 20.0% 20.0% 20.09 14 Assessment Value (Line 12 * Line 13) 15 Composite Property Tax Rate - Obtained from ADOR 16 Test Year Adjusted Property Tax Expense (Line 14 * Line 15) 17 Tax on Parcels 18 Total Property Taxes (Line 16 + Line 17) 19 Adjusted Test Year Property Taxes 20 Adjustment to Test Year Property Taxes (Line 18 - Line 19) 21 22 Property Tax on Company Recommended Revenue (Line 16 + Line 17) 23 Company Test Year Adjusted Property Tax Expense (Line 18) 1ncrease in Property Tax Due to Increase in Revenue Requirement 25	8	Department of Revenue Mutilplier		•		2
Plus: 10% of CWIP (intentionally excluded) 11 Less: Net Book Value of Licensed Vehicles Full Cash Value (Line 9 + Line 10 - Line 11) Assessment Ratio Assessment Value (Line 12 * Line 13) Composite Property Tax Rate - Obtained from ADOR Test Year Adjusted Property Tax Expense (Line 14 * Line 15) Tax on Parcels Total Property Taxes (Line 16 + Line 17) Adjusted Test Year Property Taxes Adjustment to Test Year Property Taxes (Line 18 - Line 19) Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement 421 421 421 421 421 421 421 42	9	Revenue Base Value (Line 7 * Line 8)		238.928		
Full Cash Value (Line 9 + Line 10 - Line 11) Assessment Ratio Assessment Value (Line 12 * Line 13) Composite Property Tax Rate - Obtained from ADOR Test Year Adjusted Property Tax Expense (Line 14 * Line 15) Total Property Taxes (Line 16 + Line 17) Adjusted Test Year Property Taxes Adjustment to Test Year Property Taxes (Line 18 - Line 19) Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement 238,507 378,130 20.09 47,701 75,626 9.22629 9.22629 9.22629 9.22629 9.27629	10			,		-
12 Full Cash Value (Line 9 + Line 10 - Line 11) 238,507 378,130 13 Assessment Ratio 20.0% 20.0% 14 Assessment Value (Line 12 * Line 13) 47,701 75,626 15 Composite Property Tax Rate - Obtained from ADOR 9.2262% 9.2262% 16 Test Year Adjusted Property Tax Expense (Line 14 * Line 15) \$ 4,401 \$ 6,977 17 Tax on Parcels - - \$ 4,401 \$ 6,977 18 Total Property Taxes (Line 16 + Line 17) \$ 4,401 \$ 4,401 \$ 6,977 20 Adjustment to Test Year Property Taxes (Line 18 - Line 19) \$ (75) \$ 6,977 21 Property Tax on Company Recommended Revenue (Line 16 + Line 17) \$ 6,977 22 Property Tax on Company Recommended Revenue (Line 16 + Line 17) \$ 6,977 23 Company Test Year Adjusted Property Tax Expense (Line 18) \$ 4,401 24 Increase in Property Tax Due to Increase in Revenue Requirement \$ 2,576	11	Less: Net Book Value of Licensed Vehicles		421		421
13 Assessment Ratio 20.0% 47,701 75,626 14 Assessment Value (Line 12 ° Line 13) 47,701 75,626 15 Composite Property Tax Rate - Obtained from ADOR 9.2262% 9.2262% 16 Test Year Adjusted Property Tax Expense (Line 14 ° Line 15) \$ 4,401 \$ 6,977 17 Tax on Parcels \$ 4,401 \$ 6,977 18 Total Property Taxes (Line 16 + Line 17) \$ 4,401 19 Adjusted Test Year Property Taxes \$ 4,476 20 Adjustment to Test Year Property Taxes (Line 18 - Line 19) \$ (75) 21 22 Property Tax on Company Recommended Revenue (Line 16 + Line 17) \$ 6,977 23 Company Test Year Adjusted Property Tax Expense (Line 18) \$ 4,401 24 Increase in Property Tax Due to Increase in Revenue Requirement \$ 2,576 25 10 10 10 10 26 10 10 10 27 10 10 10 28 10 10 29 10 10 20 10 10 20 10 10 20 10 10 21 10 10 22 10 10 23 10 10 24 10 10 25 10 10 26 10 10 27 10 10 28 10 10 29 10 10 20 10 20 10 10 20 10 10 20 10 10 20 10 20 10 10 20	12	Full Cash Value (Line 9 + Line 10 - Line 11)				
Assessment Value (Line 12 ° Line 13) Composite Property Tax Rate - Obtained from ADOR 15 Composite Property Tax Rate - Obtained from ADOR 16 Test Year Adjusted Property Tax Expense (Line 14 ° Line 15) 17 Tax on Parcels 18 Total Property Taxes (Line 16 + Line 17) 19 Adjusted Test Year Property Taxes 20 Adjustment to Test Year Property Taxes (Line 18 - Line 19) 21 22 Property Tax on Company Recommended Revenue (Line 16 + Line 17) 23 Company Test Year Adjusted Property Tax Expense (Line 18) 24 Increase in Property Tax Due to Increase in Revenue Requirement 25	13	Assessment Ratio				20.0%
Composite Property Tax Rate - Obtained from ADOR Test Year Adjusted Property Tax Expense (Line 14 * Line 15) Tax on Parcels Total Property Taxes (Line 16 + Line 17) Adjusted Test Year Property Taxes Adjustment to Test Year Property Taxes (Line 18 - Line 19) Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement 9.2262% 9.2262% 9.2262% 9.2262% 9.2262% 9.2262% 9.2262% 9.2262% 9.2262% 9.2262% 9.2262% 9.2262% 9.2262% 9.262% 9.262% 9.2262% 9.262% 9.2	14	Assessment Value (Line 12 * Line 13)				
Test Year Adjusted Property Tax Expense (Line 14 * Line 15) Tax on Parcels Total Property Taxes (Line 16 + Line 17) Adjusted Test Year Property Taxes Adjustment to Test Year Property Taxes (Line 18 - Line 19) Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement \$ 4,401 \$ 6,977 \$ 4,401 \$ 6,977 \$ 6,977	15	Composite Property Tax Rate - Obtained from ADOR		•		
Tax on Parcels Total Property Taxes (Line 16 + Line 17) Adjusted Test Year Property Taxes Adjustment to Test Year Property Taxes (Line 18 - Line 19) Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement Tax on Parcels 4,401 \$ 6,977 \$ 6,977 \$ 4,401 \$ 4,401 \$ 4,401	16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$		\$	
Adjusted Test Year Property Taxes Adjustment to Test Year Property Taxes (Line 18 - Line 19) Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement \$ 4,476 \$ (75) \$ 6,977 \$ 4,401 \$ \$ 4,401 \$ \$ 4,401 \$ \$ 2,576	17		•	-	•	-
Adjusted Test Year Property Taxes Adjustment to Test Year Property Taxes (Line 18 - Line 19) Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement \$ 4,476 \$ (75) \$ 6,977 \$ 4,401 \$ 4,401 \$ 4,401	18	Total Property Taxes (Line 16 + Line 17)	\$	4,401		
Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement The state of the state o	19	Adjusted Test Year Property Taxes				
Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement The state of the state o	20		\$			
Property Tax on Company Recommended Revenue (Line 16 + Line 17) Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement The state of the state o	21					
Company Test Year Adjusted Property Tax Expense (Line 18) Increase in Property Tax Due to Increase in Revenue Requirement \$ 4,401 \$ 2,576	22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)			\$	6.977
24 Increase in Property Tax Due to Increase in Revenue Requirement \$ 2,576	23					
25	24				\$	
	25				<u> </u>	
26 Increase in Property Tax Due to Increase in Revenue Requirement (Line 24) \$ 2,576	26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 2	4)		\$	2,576
——————————————————————————————————————		• • • • • • • • • • • • • • • • • • • •	,			209,436
200,100		·	η.		•	1.23016%
29		2012 2012 2012 2012 2012 2012 2012 2012	′			1.2501070
30						
31	31					
32	32					
33	33					
34	34					
35	35					
36	36					
37						
38	38					
39	39					
40	40					

Exhibit Rebuttal Schedule C-2 Page 4 Witness: Bourassa

Rate Case Expense

Line			
<u>No.</u>			
1			
2			
3	Estimated Rate Case Expense	\$	50,000
4		•	,
5	Estimated Amortization Period in Years		3
6			-
7	Annual Rate Case Expense	\$	16,667
8			
9	Adjusted Test Year Rate Case Expense	\$	10,000
10			,
11	Increase(decrease) Rate Case Expense	\$	6,667
12			
13	Adjustment to Revenue and/or Expense	\$	6,667
14			
15			
16	Reference		
17	Testimony		
18			
19			
20			

Exhibit Schedule C-2 Page 5 Witness: Bourassa

Revenue Adjustment

Revenue Adjustment	\$	(1,820)
		(4.000)
Total Revenue from Annualization	<u> </u>	(1,820)
	•	(4.000)
Adjustment to Revenue and/or Expense	\$	(1,820)
Staff Adjustment # 1		
	Revenue Adjustment Total Revenue from Annualization Adjustment to Revenue and/or Expense Reference Staff Adjustment # 1	Total Revenue from Annualization \$ Adjustment to Revenue and/or Expense \$ Reference

Exhibit Schedule C-2 Page 6 Witness: Bourassa

Water Testing

Staff Recommended Water Testing Expense	\$	14,527
Adjuste Test Year Water Testing Expense	\$	5,669
Adjustment to purchased power expense (rounded)	\$	8,858
Adjustment to Revenue and/or Expense		8,858
Reference		
Staff Adjustment #3		
	Adjuste Test Year Water Testing Expense Adjustment to purchased power expense (rounded) Adjustment to Revenue and/or Expense Reference	Staff Recommended Water Testing Expense \$ Adjuste Test Year Water Testing Expense \$ Adjustment to purchased power expense (rounded) \$ Adjustment to Revenue and/or Expense Reference

Exhibit Schedule C-2 Page 7 Witness: Bourassa

Auto Expense

Line <u>No.</u> 1			
2		_	
3 4	Test Year Auto Expense	\$	1,500
5	Staff Recommended Auto Expense		3,250
6 7	Adjustment to Revenues	\$	(1,750)
8 9			
10 11	Adjustment to Revenue and/or Expense		(1,750)
12	Reference		
13	Staff Adjustment #3		
14			
15 16			
17			
18			
19			
20			
21			
22			

23

Adjustment Number 7

Exhibit Schedule C-2 Page 8 Witness: Bourassa

Telephone Expense

Line No. 1			
2 3	Staff Recommended Telephone Expense	\$	2,366
4	Adjusted Test Year Telephone Expense		4,732
6 7	Adjustment to Revenues	\$	(2,366)
8		_	
9 10	Adjustment to Revenue and/or Expense	\$	(2,366)
11	Reference		
12	Staff Adjustment #4		
13			
14			
15			
16			
17			
18			
19			
20			

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Exhibit Schedule C-2 Page 9 Witness: Bourassa

Schedule C-2 Page 10 Witness: Bourassa

Exhibit

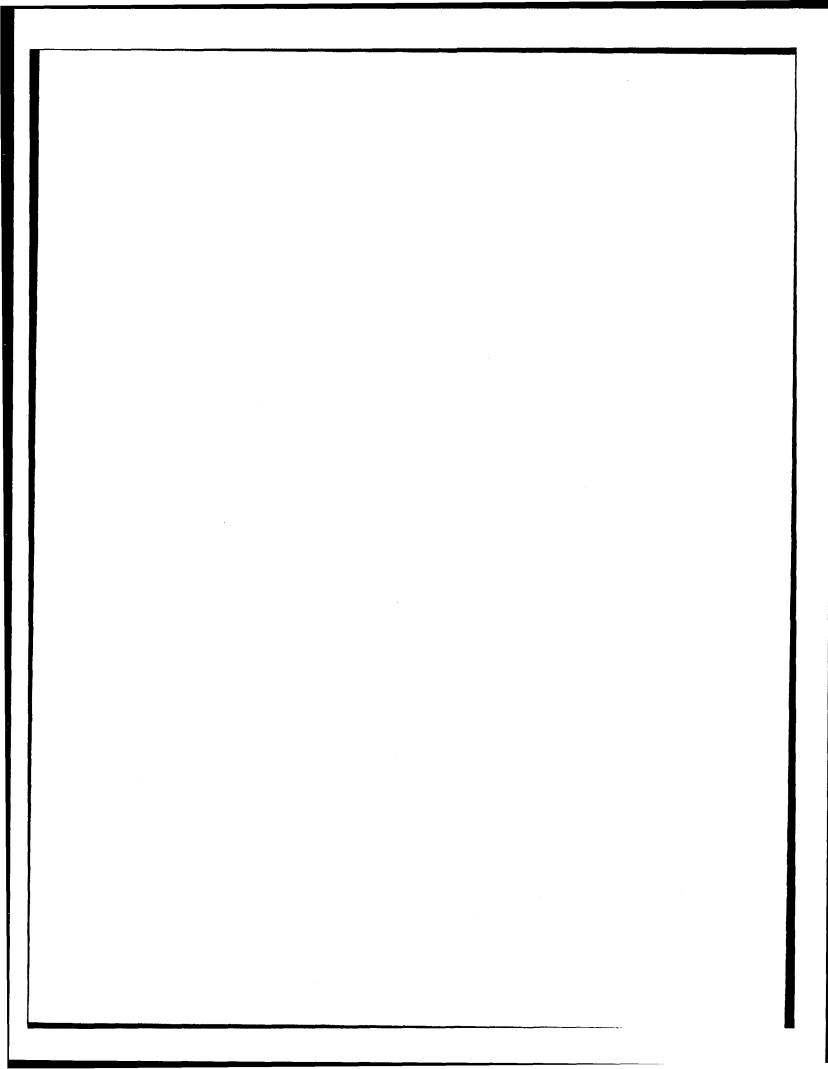
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Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012

Adjustment to Revenues and Expenses
Adjustment Number 10

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Exhibit Schedule C-2 Page 11 Witness: Bourassa



Utility Source. LLC - Wastewater Division

Test Year Ended December 31, 2012 Adjustment to Revenues and/or Expenses
Adjustment Number 11

29 30

Exhibit

Rebuttal Schedule C-2 Page 12 Witness: Bourassa

	Adjustment Number 11		Wi	tness: Boura	ssa
Line					
No.					
1	Income Taxes				
2		•	Test Year	T ₄	est Year
3			resent Rates		osed Rates
4	Compauted Income Tax	\$	(15,616)	\$	
5	Test Year Income tax Expense	Ψ	(13,545)	Þ	17,012 (15,616)
6	Adjustment to Income Tax Expense	\$	(2,071)	\$	32,628
7	·		(2,071)		32,020
8					
9					
10					
11					
12					
13	SUPPORTING SCHEDULE				
14	C-3, page 2				
15					
16					
17					
18					
19					

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Computation of Gross Revenue Conversion Factor

Exhibit Rebuttal Schedule C-3 Page 1 Witness: Bourassa

		Percentage of
Line		Incremental
No.		Gross
1	Combined Federal and State Effective Income Tax Rate	Revenues
2	both billion coordinate blate bliective income Tax Rate	15.773%
3	Property Taxes	1.036%
4		1.03076
5		
6	Total Tax Percentage	16.809%
7	• "	
8	Operating Income % = 100% - Tax Percentage	83.191%
9 10		
11		
12		
13	1 = Gross Revenue Conversion Facto	r
14	Operating Income %	1.2021
15	•	1.2021
16		
17		
18		
19 20		
21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27		,
28		
29		
30		
31 32		
33		
34		
35		
36		
37		
38		
39		
40		
	·	

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012

Exhibit Rebuttal Schedule C-3 Page 2 Witness: Boursesa

GROSS REVENUE CONVERSION FACTOR

Line <u>No.</u>	<u>Description</u>	(A)	(B)	(C)	(I	D)	(E)		(F)
1 2 3 4 5 6	Catculation of Gross Revenue Conversion Factor: Revenue Uncollecible Factor (Line 11) Revenues (I.1 - L2) Combined Federal and State Income Tax and Property Tax Rate (Line 23) Subtotal (I.3 - L4) Revenue Conversion Factor (L1 / L5)	100,0000% 0,0000% 100,0000% 16,0091% 83,1909% 1,202056	•						
7 8 9 10	Calculation of Uncollectible Factor. Unity Combined Federal and State Tax Rate (L17) One Minus Combined Income Tax Rate (L7 - L8) Uncollectible Rate Uncollectible Factor (L9 * L10)	100 0000% 15 7730% 84 2210% 0.0000%		<u>.</u>					
12 13 14 15 16 17	Calculation of Effective Tax Rate: Operating Income Steper Taxes (Arizona Taxable Income) Arizona State Income Tax Rate Federal Taxable Income Tax Rate Applicable Federal Income Tax Rate (L55 Col F) Effective Federal Income Tax Rate (L14 x L15) Combined Federal and State Income Tax Rate (L13 + L16)	100,0000% 2,8074% 97,1926% 13,3401% 12,9666%	15.7730%						
19 20 21 22	Calculation of Effective Property Tax Factor Unity Combined Federal and State Income Tax Rate (L17) One Minus Combined Income Tax Rate (L18-L19) Property Tax Factor Effective Property Tax Factor (L20*L21) Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	100.0000% 15.7730% 84.2270% 1.2302%	1.0361%	16.8091%					
25	Required Operating Income Adjusted Test Year Operating Income (Loss) Required Increase in Operating Income (L24 - L25)	\$ 90,644 \$ (83,387)	\$ 174,232						
28	Income Taxes on Recommended Revenue (Col. (F), L52) Income Taxes on Test Year Revenue (Col. (C), L52) Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ 17,012 \$ (15,616)	\$ 32,628						
31 32 33	Recommended Revenue Requirement Uncollectible Rate (Line 10) Uncollectible Expense on Recommended Revenue (L24 * L25) Adjusted Test Year Uncollectible Expense Required Increase in Revenue to Provide for Uncollectible Exp.	\$ 328,900 0,0000% \$.	\$ -						
36	Property Tax with Recommended Revenue Property Tax on Test Year Revenue Increase in Property Tax Due to Increase in Revenue (L35-L36)	\$ 6,977 \$ 4,401	\$ 2,576						
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 209,436	I					
		(A)	(8)	(C)			<u></u>		(F)
		Test Total	Year		Total	Company Re	ecommended		
39	Calculation of Income Tax: Revenue	\$ 119,464		Wastewater \$ 119,464		328,900		Wast	328,900
40	Operating Expenses Excluding Income Taxes	218,467		218,467		221,043	1	•	221,043
	Synchronized Interest (L47) Arizona Taxable Income (L39 - L40 - L41)	\$ (99,003)		\$ (99,003)	5	107,856		\$	107,856
	Arizona State Effective Income Tax Rate (see work papers) Arizona Income Tax (L42 x L43)	2.8074% \$ (2,779)		2.8074% \$ (2,779)	3	2.8074% 3.028			2.8074%
45	Federal Taxable Income (L42- L44)	\$ (96,224)		\$ (95,224)	s	104,828		Š	3,028 104,828
	Federal Tax Rate Federal Tax	13,3401% \$ (12,835)		13,3401% \$ (12,836.35)	s	13.3401%	[s 1	3.3401% 13,984
48 49 50 51 52		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		(,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,				•	
53	Total Federal Income Tax	\$ (12,836)		\$ (12,836)	3	13,984		\$	13,984
	Combined Federal and State Income Tax (L35 + L42)	\$ (15,616)	·	\$ (15,616)	L\$	17,012		3	17,012
56	<u>COMBINED</u> Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / <u>WASTEWATER</u> Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L <u>WATER</u> Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Cc	53) / [Col. [E], L45 - Col. [B], L45)				13.3401%		1	3.3401%

Securation of Interest Synchronization:
Rate Base
Security Weighted Average Cost of Debt
Synchronized Interest (LS9 X L60)

Utility Source, LLC - Wastewater Division Revenue Summary Test Year Ended December 31, 2012

Exhibit Rebuttal Schedule H-1 Page 1 Witness: Bourassa

Line				Total Revenues at Present		Total Revenues at		Dollar	Percent	Percent of Present	Percent of Proposed
No.	Meter Size	Classification		Rates		Proposed Rates		Change	Change	Water Revenues	Water Revenues
1	3/4 Inch	Residential	\$	92,479	\$	287,729	\$	195,250	211.13%	77.41%	87.48%
2	3/4 Inch	Commercial	•	114	-	740	-	626	547.81%	0.10%	0.22%
3	2 Inch	Commercial		23,698		36,829		13,131	55.41%	19.84%	11.20%
4								•			
5											
6											
7											
8											
9	Subtotals of Re	venues	\$	116,291	\$	325,298	\$	209,007	179.73%	97.34%	98.90%
10	Revenue Annua	alizations:									
11	3/4 Inch	Residential	\$	173	\$	741	\$	567	327.23%	0.15%	0.23%
12											
13											
14											
15											
16	Subtotal Reven	ue Annualization		173		741		567	327.23%	0.15%	0.62%
17											
18		w/ Annualization	\$	116,465	\$	326,039	\$	209,574	179.95%	97.49%	99.13%
19	Misc Revenues			3,441		3,441		-	0.00%	2.88%	1.05%
20	Reconciling Am		•	(442)		(580)		(138)	31.22%	-0.37%	-0.18%
21	Total Revenues		\$	119,464	\$	328,900	\$	209,436	175.31%	100.00%	100.00%
22											
23											

Utility Source, LLC - Wastewater Division Analysis of Revenue by Detailed Class Test Year Ended December 31, 2012

Exhibit Rebuttal Schedule H-2 Page 1 Witness: Bourassa

		Customer	(a) Average Number of Customers		Avera	QΘ			Proposed inc		Percent
Line		Classification	at	Average	Present		Proposed		Dollar	Percent	of
No.		d/or Meter Size	12/31/2012	Consumption	Rates	_	Rates	_	<u>Amount</u>	Amount	Customers
1	3/4 Inch	Residential	320	4,123	\$ 24.08	5		\$	50.83	211.13%	98.77%
2	3/4 Inch	Commercial	1	1,667	9.52		61.66		52.14	547.81%	0.31%
3	2 Inch	Commercial	3	115,286	658.29		1,023.04		364.75	55.41%	0.93%
4											
5											
6											
7											
8											
9											
10											
11										_	
12	Totals		324							=	100.00%
13											
14		End Number									
15	of Custome	ers:	325								
16											
17											
18											
19											

Utility Source, LLC - Wastewater Division Analysis of Revenue by Detailed Class Test Year Ended December 31, 2012

18

Exhibit Rebuttal Schedule H-2 Page 2 Witness: Bourassa

		Customer	(a) Average Number of <u>Customers</u>		<u>Medi</u>		Proposed I		Percent
Line		Classification	et	Median	Present	Proposed	Dollar	Percent	of
No.		nd/or Meter Size	12/31/2012	Consumption	Rates	Rates	<u>Amount</u>	<u>Amount</u>	<u>Customers</u>
1	3/4 Inch	Residential	320	3,500	\$ 20.44	\$ 	\$ 51.16	250.30%	98.77%
2	3/4 Inch	Commercial	1	1,500	\$ 8.57	\$ 60.79	52.23	609.80%	0.31%
3	2 Inch	Commercial	3	65,000	371.15	761.75	390.60	105.24%	0.93%
4									
5									
6									
7									
8									
9									
10								_	
11	Totals		324						100.00%
12								-	
13	Actual Yea	ar End Number							
14	of Custon	ners:	325						
15									
16									
17									

Utility Source, LLC - Wastewater Division Present and Proposed Rates Test Year Ended December 31, 2012

Exhibit Rebuttal Schedule H-3 Page 1 Witness: Bourassa

Line	Customer Classification	ı	Present	Proposed
No.	and Meter Size (Residential, Commercial)		Retes	Rates
1	Monthly Usage Charge for:			
2	5/8 x 3/4 Inch	\$		\$ 53.00
3	3/4 Inch			53.00
4	1 Inch			132.50
5	1 1/2 Inch			265.00
6	2 Inch			424.00
7	3 Inch		-	848.00
8	4 Inch		-	1,325.00
9	6 Inch			2,650.00
10				•
11	Gallons In Minimum			
12	All Meter Sizes		-	
13				
14	Rate per 1,000 Gallons of Water Usage			
15	Residential	\$	5.84	\$ 5.31
16	Commercial and Industrial			
17	Car washes, laudromats, Commercial, Manufacturing		5.71	5.20
18	Hotels, Motels		7.66	6.97
19	Restauarants		9.46	8.61
20	Industrial Laundries		8.39	7.63
21	Waste haulers		171.20	155.79
22	Restuarant Grease		149.80	136.32
23	Treatment Plant Sludge		171.20	155.79
24	Mud Sump Waste		535.00	486.85
25				•
26				
27				
28				
29				
30	V .			

Utility Source, LLC - Wastewater Division Present and Proposed Rates Test Year Ended December 31, 2012

Exhibit Rebuttal Schedule H-3 Page 3 Witness: Bourassa

Line <u>No.</u>	
1	
2	Other Charges:
3	
4	

Establishment	\$ 20.00
Establishment (After Hours)	\$ 40.00
Reconnection (Delinquent)	\$ 50.00
Reconnection (Delinquent and After hours)	\$ 40. <u>0</u> 0
Minimum Deposit Requirement	PER RULE
Deposit Interest	PER RULE
Re-establishment (Within 12 months)	PER RULE
NSF Check	\$ 20.00
Deferred Payment, per month	PER RULE
Late Charge	PER RULE
After hours service charge	\$ 40.00
* After hours service charge will apply when service requ	uested by customer after

\$	20.00
*Re	moved
 \$	50.00
*Re	moved
PER	RULE
PER	RULE
PER	RULE
\$	20.00
 PE	RRULE
 PE	RRULE
 \$	40.00

^{*} After hours service charge will apply when service requested by customer after hours.

ATTACHMENT 2

1	BEFORE THE ARIZONA COR	PORATION COMMISSION
2		
3	BOB STUMP, CHAIRMAN GARY PIERCE	
4	BRENDA BURNS SUSAN BITTER SMITH	
5	BOB BURNS	
6		DOCKET NO: SW-03437A-13-033
7	IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE,	
8	LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR	
9	VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN	
10	ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY	
11	SERVICE BASED THEREON.	
12		
13	REBUTTAL TES	TIMONY OF
14	THOMAS J. BO	OURASSA
15	(COST OF C	APITAL)
16	October 3	3, 2014
17		
18		
19 20		
21		
22		
23		
24		
25		
26		

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5	III. Summary of the Staff and RUCO Recommendations
6	IV. REBUTTAL TO THE COST OF EQUITY RECOMMENDATIONS OF STAFF
7	AND RUCO7
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-i-

I. <u>INTRODUCTION AND QUALIFICATIONS</u>

- Q. PLEASE STATE YOUR NAME AND ADDRESS.
- A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.
- Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?
- A. On behalf of Applicant Utility Source, LLC ("USLLC" or the "Company").
- Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON RATE BASE ISSUES IN THIS DOCKET?
- A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement and rate design is being filed in a separate volume at the same time as this testimony. In this volume, I present my cost of capital rebuttal testimony. Also attached are two exhibits, which are discussed below.
- II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY
- Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REBUTTAL TESTIMONY?
- A. I will provide rebuttal responses as appropriate to the direct testimony of Staff witness Mr. John Cassidy and RUCO witness Mr. Robert Mease. This portion of my rebuttal testimony focuses on cost of capital issues. I will testify in support of USLLC's proposed return on equity and rate of return on its fair value rate base ("FVRB"). I am sponsoring the Company's D Schedules, which are attached to this testimony. There are 22 schedules that support my cost of capital testimony. As noted above, I am also sponsoring rebuttal testimony that addresses the Company's rate base, income statement (revenue and operating expenses), required increase in revenue, and its rate design and proposed rates and charges for service.

A.

For convenience, that testimony and my related schedules are contained in separate volumes.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?

A. Yes. The range of my rebuttal DCF, CAPM, and Build-up Method analyses is 9.0 percent to 11.6 percent with a mid-point of 10.3 percent compared to my direct DCF, CAPM, and Build-up Method analyses is 8.5 percent to 11.7 percent with a mid-point of 10.1 percent. My opinion that a return on equity of 11.0 percent for USLLC given its size and greater risk compared to the public traded water utilities has not changed.

Q. HAVE YOU CHANGED ANY OF YOUR METHODS AND INPUTS?

I continue to use the three methods I used in my direct testimony; the DCF, CAPM, and the Build-up Method. My inputs have been updated to use more current data. I also changed the methodology for computing the current market risk premium ("MRP") for the current MRP CAPM. Instead of using the median 3-5 year projected price appreciation for the Value Line 1700 stocks in the estimation of the current MRP, I used the median 3-5 year projected earnings per share growth ("EPS") growth and median 3-5 year projected dividend per share growth ("DPS") growth. Using these inputs is consistent with the methodology recommended by Dr. Morin for computing the current MRP. Using EPS and DPS inputs is more consistent with the DCF method used to estimate the current MRP. Just as important, I have found that using EPS growth and DPS growth inputs in the MRP estimation approach is less volatile than using the 3-5 year price appreciation which I noted in my direct was a concern of its use.²

¹ Roger A. Morin, New Regulatory Finance (Public Utility Reports 2006), ("Morin") pp. 165-166.

² See Direct Testimony of Thomas J. Bourassa ("Bourassa Dt.") at 39.

Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL RESOMMENDATIONS.

A. As noted above, I recommend a return on equity of 11.0 percent which is above the mid-point of the range of my DCF, CAPM, and Build-up Method analyses of 10.2 percent but well below the top end of the range of 11.5 percent.³ I also recommend a capital structure consisting of 0 percent debt and 100 percent equity. Based on these recommendations with weighted average cost of capital ("WACC") is 11.0 percent. Therefore, I recommend an 11.0 percent return be applied to USLLC's fair value rate base ("FVRB").

III. SUMMARY OF THE STAFF AND RUCO RECOMMENDATIONS

- Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.
- A. Staff is recommending a capital structure consisting of 0 percent debt and 100 percent equity.⁴ Staff determined a cost of equity of 9.6 percent based on the average cost of equity produced by its DCF and CAPM models, a financial risk adjustment and an economic assessment adjustment (EAA).⁵ Staff used a sample of seven publicly traded water utilities; six of which are the same as those I used in my analysis.⁶ Staff did not consider firm size or firm-specific risks in its analysis.

³ See USLLC Direct Scendule D-4.1.

⁴ Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 27.

⁵ Id at 28.

⁶ Staff has added York Water (YORW) to its proxy group.

7 Cassidy Dt. at 28.

Based on its capital structure recommendation, Staff determined the WACC for USLLC to be 9.6 percent.⁷

RUCO is recommending a capital structure consisting of 0 percent debt and 100 percent equity.⁸ RUCO determined a cost of equity of 9.25 percent based on the average cost of equity produced by its DCF and CAPM models as wells as a Comparable Earnings analysis.⁹ RUCO used a sample of seven publicly traded water utilities; six of which are the same as those I used in my analysis.¹⁰ RUCO did not consider firm size or firm-specific risks in its analysis. Based on its capital structure recommendation, RUCO determined the WACC for USLLC to be 9.25 percent.¹¹

Q. PLEASE COMPARE THE PARTIES' RESPECTIVE COST OF EQUITY ESTIMATES AND RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING.

A. The respective parties' cost of equity recommendations are summarized below:

	Build-				Financial			
<u>Party</u>	<u>DCF</u>	<u>CAPM</u>	Up/CE	<u>Average</u>	Risk/EAA	<u>Adjusted</u>	Recommended	
USLLC	9.6%	9.7%	11.5%	10.3%	N/A	10.3%	11.0%	
Staff	9.0%	N/A	N/A	9.0%	0.6%	9.6%	9.6%	
RUCO	8.86	7.24	9.8	8.63	N/A	8.63	9.25%	

⁸ Direct Testimony of Robert B. Mease ("Mease Dt.") at 4.

⁹ Id at 3

¹⁰ Staff has added York Water (YORW) to its proxy group.

¹¹ Cassidy Dt. at 47.

Q. HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO OTHER FORECASTS OF COMMON EQUITY RETURNS AND CURRENTLY AUTHORIZED RETURNS?

A. They are much lower. *Value Line*, a reputable publication used by the Company and Staff cost of capital witnesses in the instant case, publishes forecasts of returns on common equity for larger publicly traded companies. Six water utilities are included in my sample group while Staff and RUCO include seven. *Value Line* (July 18, 2014) shows actual and projected returns on equity for those water utilities:

Company	Actual			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	2017-19
American States Water (AWR)	12.7%	12.5%	12.0%	12.5%
Aqua America (WTR)	13.4%	13.5%	14.5%	14.0%
California Water (CWT)	7.9%	8.0%	9.0%	10.0%
Connecticut Water (CTWS)	9.2%	10.0%	9.0%	8.5%
Middlesex Water (MSEX)	8.7%	8.5%	8.5%	9.0%
SJW Corp. (SJW)	7.3%	7.5%	8.0%	8.0%
York Water. (YORW)	9.3%	11.5%	12.0%	12.0%
Averages	9.8%	10.2%	10.4%	10.6%

Furthermore, the currently <u>authorized ROEs</u> for the sample water utility companies as reported by AUS Utility Reports (September 2014) average 10.03 percent. They are as follows:

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Company

American States Water (AWR)	9.99%
Aqua America (WTR)	10.29%
California Water (CWT)	9.99%
Connecticut Water (CTWS)	9.75%
Middlesex Water (MSEX)	10.15%
SJW Corp. (SJW)	9.99%
York Water. (YORW)	<u>NM</u>
Average	10.03%

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE RETURN DATA YOU JUST PRESENTED, MR. BOURASSA?

- A. For one, they are all much higher than the Staff and RUCO returns produced by their models, before any consideration of financial or other risks. For another, since we are applying a return to a book value rate base, book equity returns have relevance. In fact, if we are to meet the comparable earnings standards set forth in *Hope* and *Bluefield*, then a comparison to book returns is an essential element. These utilities' rates will be in effect during approximately the same time period as USLLC. Yet, if the Staff or RUCO recommendation is adopted, USLLC will be allowed to earn much less, failing the *Hope and Bluefield* standard.
- Q. IS IT YOUR VIEW THAT USLLC'S ROE IS HIGHER THAN THE PUBLICLY TRADED UTILITIES?

A. Yes. My recommendation in the instant case is 70 basis points higher than the mid-point of my cost of equity estimates for the publicly traded water utilities. USLLC has nearly 9 times more business risk than the publicly traded water utilities, has a much higher operating leverage, is less diverse, and has limited financially flexibility because it is not publicly traded. Further, since USLLC is not publicly traded, an investment in USLLC is illiquid compared to an investment in a publicly traded company and therefore has greater liquidity risk and a higher cost of capital. The 70 basis points difference is actually conservative given the risks associated with an investment in USLLC.

IV. REBUTTAL TO THE COST OF EQUITY RECOMMENDATIONS OF STAFF AND RUCO

A. Rebuttal to the Cost of Equity Recommendations of Staff

- Q. STAFF ONLY USED THE DCF MODEL TO ESTIMATE THE COST OF EQUITY?
- A. Yes. Staff uses two versions of the DCF model a constant growth DCF and a multi-stage DCF. For unexplained reasons, Staff has not incorporated estimates derived from it CAPM.¹³
- Q. IS THE USE OF ONLY ONE METHODOLOGY TO ESTIMATE THE COST OF EQUITY APPROPRIATE?
- A. No. As Dr. Morin states:14

Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions

¹² Bourassa COC Dt. at 25-27.

¹³ Cassidy Dt. at 3.

¹⁴ Roger A. Morin. New Regulatory Finance, Public Utility Reports, Inc., 2006. pp. 428-429.

underlying the methodology and on the reasonableness of the proxies used to validate a theory. The inability of the DCF model to account for changes in relative market valuation, discussed below, is a vivid example of the potential shortcomings of the DCF model when applied to a given company. Similarly, the inability of the CAPM to account for variables that affect security returns other than beta tarnishes its use. (emphasis added)

No one individual method provides the necessary level of precision for determining a fair return, but each method provides useful evidence to facilitate the exercise of an informed judgment. Reliance on any single method or preset formula is inappropriate when dealing with investor expectations because of possible measurement difficulties and vagaries in individual companies' market data

When measuring equity costs, which essentially deals with the measurement of investor expectations, no single methodology provides a foolproof panacea. Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the methodology and on the reasonableness of the proxies used to validate the theory. It follows that more than one methodology should be employed in arriving at a judgment on the cost of equity and that these methodologies should be applied across a series of comparable risk companies.

Q. IS THE DCF A SUPERIOR METHODOLOGY?

A. No. Again, I concur with Dr. Morin who states:15

While it is certainly appropriate to use the DCF methodology to estimate the cost of equity, there is no proof that the DCF produces a more accurate estimate of the cost of equity than other methodologies. Sole reliance on the DCF model ignores the capital market evidence and financial theory formalized in the CAPM and other risk premium methods. The DCF model is one of many tools to be employed in conjunction with other methods to estimate the cost of equity. It is not a superior methodology that supplants other financial

¹⁵ Morin, p. 431.

theory and market evidence. The broad usage of the DCF methodology in regulatory proceedings in contrast to its virtual disappearance in academic textbooks does not make it superior to other methods. The same is true of the Risk Premium and CAPM methodologies. (emphasis added)

Q. DOES THE DCF TEND TO UNDERSTATE THE INVESTORS' REQUIRED RETURN?

A. Yes, when the market value of assets is significantly higher or lower than book value, a market-based DCF cost rate applied to the book value of common equity will not produce investors' expected returns. Dr. Morin also provides an explanation for this flaw in the DCF:¹⁶

The third reason and perhaps most important for caution and skepticism is that application of the DCF model produces estimates of common equity cost that are consistent with investors' expected return only when stock price and book value are reasonably similar, that is when the market-to-book ratio (M/B) is close to unity. As shown below, application of the standard DCF model to utility stocks understates the investor's expected return when the M/B ratio of a given stock exceeds unity. This was particularly relevant in the capital market environment of the 1990s and 2000s where utility stocks were trading at M/B ratios well above unity and have been for nearly two decades. The converse is also true, that is the DCF model overstates the investor's return when the M/B ratio is less than unity. The reason for the distortion is that the DCF market return is applied to a book value rate base by the regulator, that is, a utility's earnings are limited to earnings on a book value rate base.

At Mr. Cassidy's average DCF estimate of 9.0 percent, USLLC would have no realistic opportunity to actually earn Mr. Cassidy's market-based rate of return.

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¹⁶ Morin, p. 434.

For example, the average market price per share of his proxy group is \$25.25¹⁷ and the average book value per share is \$12.50.¹⁸ Under these circumstances, Mr. Cassidy's 9.0 percent market-based cost rate implies an annual return per share of \$2.27¹⁹ consisting of \$0.73 in dividends²⁰ and \$1.54 in growth (market-price appreciation).²¹ However, application of a 9.0 percent return rate to book value per share (\$12.50) produces an opportunity to earn a total annual return of just \$1.13.²² With annual dividends of \$0.73²³, the utility could reasonably expect market-price appreciation of just \$0.40²⁴, or only 1.58 percent.

As should be evident from the above example, the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations <u>only</u> when the market price of a stock and the stock's book value are approximately the same.²⁵ This is because in a regulatory setting the return is applied to book value, not market value. An underlying assumption of the standard DCF is that the stock price, book value, dividends, and earnings all grow at the

¹⁷ Average of stock prices for Cassidy proxy group at October 28, 2014.

Average of book value per share as of December 31, 2013, as reported by *Value Line*.

¹⁹ 9.0 percent times \$25.25.

Average adjusted dividend yield (D_0) for Cassidy proxy group of 2.9 percent times the average stock price of \$25.25.

Implied growth of 6.1 percent (the return of 9.0 percent less adjusted dividend yield of 2.9 percent) times the average stock price of \$25.25.

²² 9.0 percent times \$12.50.

²³ \$1.13 times average payout ratio of 60%

²⁴ \$1.13 minus \$0.68.

²⁵ Roger A. Morin, New Regulatory Finance (Public Utility Reports, Inc., 2006) ("Morin"), pp. 435.

same rate.²⁶ None of these assumptions have been historically true for the sample electric utility companies. Thus, one must be careful in the application of the DCF model in a cost of equity analysis; particularly when it is the <u>only</u> method employed.

We should also be concerned with the DCF model's applicability under current market conditions. The Federal Reserve's bond buying programs have kept longer-term bond yields low. Interest rates are expected to rise when the Federal Reserve ends its bond buying program and the economy continues to improve, but in the meantime and because bond yields are extremely low, investors are "chasing yields" and driving up the stock prices of companies that pay dividends, like utilities. ²⁷ In fact, according to the Wall Street Journal, utilities have provided the best returns among the S&P 500's 10 sectors so far this year, returning 14 percent including dividends. ²⁸ The 1-year, 3-year, and 5 – year annualized total returns for Mr. Cassidy's water proxy group are 12.76 percent, 12.57 percent, and 11.56 percent, respectively, which are all significantly higher than Mr. Cassidy's estimate

²⁶ Morin p. 292.

²⁷ "Dividend Paying Stocks Fit the Bill: Utilities and REITS Are Among Those Beating Major Indices; 'The Search for Yield Hasn't Abated,'" Wall Street Journal, July 8, 2014.

²⁸ Id

of the cost of equity.²⁹ The recent higher returns expected by investors does not line up with recent experience in the markets. As Dr. Morin notes,

To the extent that increase (decreases) in relative market valuation are anticipated by investors, especially myopic investors with short-term investment horizons, the standard DCF model will understate (overstate) the cost of equity.

Another way of stating this point is that the DCF model does not account for the ebb and flow of investor sentiments over the course of the business cycle. The problem was particularly acute in the mid 1990's and mid 2000's where investors, faced with very low returns on short-term fixed-income securities and an uncertain market outlook, sought higher yields offered by utility stocks in a so-called flight to quality, boosting their stock price and lowering the dividend yield.³⁰

The understatement/overstatement of investors' required return associated with the application of the market price-based DCF model to the book value of common equity clearly illustrates why reliance upon a single common equity cost rate model should be avoided.

Q. PLEASE COMMENT ON MR. CASSIDY'S DISCUSSION (AT PAGES 22-23 OF HIS DIRECT TESTIMONY) REGARING THE FINANCIAL IMPLICATIONS OF A MARKET-TO-BOOK RATIO OF GREATER THAN 1.0.

²⁹ Value Line Anlayzer data from August 28, 2014.

³⁰ Morin, p. 433 (emphasis added).

A.

There are a number of reasons investors may bid up market prices for stocks above book values, other than an expectation that a water utility will earn more than its cost of equity. One reason is that investors may expect a city or some other public entity to condemn all or part of a water utility, meaning the municipality will acquire the assets at the fair market value. Water utilities typically have assets that have a value based on reproduction cost that is well in excess of book value, and investors would be aware that a condemnation award could be well in excess of book values, even if the utility earns no more than its cost of equity.

Second, investors may anticipate a merger or acquisition that produces premium prices. With such anticipated sale prices well above book values, a water utility would also be priced above book value even if the water utility made no more than its cost of equity. There are other reasons as well. These include; (1) public utility commissions do not issues orders simultaneously in all jurisdictions, (2) not all of a company's earnings are regulated, (3) regulatory expenses, revenue and rate base adjustments may cause accounting returns to differ from those calculated on a rate case basis, (4) actual sales do not equal sales assumed in a rate case, (5) market expected ROEs change frequently while rate-case authorized ROEs do not, and (6) regulated subsidiaries constitute only a piece of a holding company pie.

The argument that utilities are earning more than their cost of capital because the market-to-book ratio is greater than 1.0 is superficial. There is ample evidence that for at least a decade now, regulated water utilities in Arizona have not been earning their costs of service, let alone overearning. Mr. Cassidy's claim - that one would expect market forces to move the stock price lower, close to a market-to-book ratio of 1.0, to reflect investor expectations of reduced expected

future cash flows - is also flawed. Mr. Cassidy has ignored many of the things of importance to investors and why it is reasonable to expect market-to-book ratios to exceed 1.0 even if water utilities are expected to earn no more than their costs of equity. If regulators were to force the market-to-book ratios to 1.0 by intentionally lowering the allowed returns, such action would place utilities at a disadvantage in competing for investment capital with industrials and other unregulated companies, whose stock trades well above book value.

- Q. PLEASE COMMENT ON STAFF'S ECONOMIC RISK ASSESSMENT, OR EAA.
- A. I can't, at least not in any meaningful way. Staff does not really explain the basis for this adjustment in its testimony except to say that its EAA reflects the uncertain status of the economy and the market.³¹ But Staff provides no analysis, study or authoritative reference upon which Mr. Cassidy's judgment rests for me to consider. Of course, I agree with Staff that the current economic environment supports increased ROEs. Interest rates are expected to increase as the FED curtails its easy money policies.³² Yet, I have never seen an adjustment of this type from Staff or anyone else until the past couple of years. When economic conditions were far worse in 2008 through 2010, Staff never advanced an EAA. I am left a bit perplexed by the whole thing, but my skepticism, and the fact that the EAA has popped into existence out of nowhere, leads me to conclude that it is an ill-considered band-aid to cover up an unreasonably low ROE. Recall that without

³¹ Cassidy Dt. at 28.

³² Blue Chip Financial Forecast, August 2014.

³⁶ Bourassa COC Dt. at 31.

34 Bourassa COC Dt. at 35.

33 Cassidy Dt. at 28.

the EAA, Staff's ROE model would be only 9.0 percent (9.6 percent average of Staff's models less EAA of 60 basis points).³³

B. Responses to Staff's Criticisms of the Company's Cost of Capital Analysis

- Q. MR. CASSIDY CRITICIZES YOU (ON PAGE 30 OF HIS DIRECT TESTIMONY) FOR RELYING SOLEY ON ANALYSTS FORECASTS OF EPS GROWTH IN THE DCF MODEL. IS THIS TRUE?
- A. No. I rely on both historical growth rates and forecasts of growth. For the historical growth rates, I use historical per share price growth, historical BVPS growth, historical EPS growth, and historical DPS growth. For the forecast growth rate, I used long-term analyst estimates of EPS growth. I just give more weight to the analyst forecasts of growth. It is important to note that Mr. Cassidy disagrees with the additional weight I give the analyst forecasts, but he is not saying these forecasts have no merit, nor did I rely solely on analyst forecasts of growth. The dispute between Mr. Cassidy and me comes down to something between 50 percent and my "greater" emphasis. In my direct testimony I explained why a weight greater than 50 percent should be given to analysts' estimates. So

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Q. AREN'T YOUR GROWTH ESTIMATES SIMILAR TO STAFF'S DESPITE THE GREATER EMPHASIS YOU PLACE ON ANALYSTS' FORECASTS **OF GROWTH?**

- Yes. Staff's growth estimate for its constant growth DCF is 5.7 percent.³⁷ The Α. implied growth for Staff's multi-stage DCF is 6.4 percent.³⁸ My two DCF growth estimates are 5.2 percent and 5.7 percent with a median of 5.5 percent.³⁹ In other words, my growth estimates are lower than Staff's. Any criticisms by Mr. Cassidy of my greater emphasis on analysts growth and the implication that my DCF estimate is overstated as a result is unfounded. As such, I will not respond at this time to Mr. Cassidy's criticisms of my use of analyst growth estimates on pages 31 through 35 of his testimony.
- DO YOU HAVE EVIDENCE THAT THE GROWTH FORECASTS USED Q. BY BOTH STAFF AND THE COMPANY ARE SIGNIFICANTLY **UNDERSTATED?**
- Yes. The 1-year, 3-year, and 5-year annualized total returns reported by Value A. Line (August 28, 2014) for Mr. Cassidy's water proxy group are approximately 12.8 percent, 12.6 percent, and 11.6 percent, respectively. 40 These indicated returns would imply a growth rate for the DCF model in the range of 8.7 to 9.9 percent.41 Compare this to Staff's 5.7 percent growth rate and 6.4 percent

³⁷ See Staff Schedule JAC-3. Solving the DCF model as set forth in Mr. Bourassa's Direct Testimony at page 31 yields g = k -D1/P0. Substituting Staff's dividend yield of 2.9% for D1/P0 and the Staff 9.3% result for k we get; g = 6.4 = 9.3 - 2.9

³⁸ See Staff Schedule JAC-3. The multi-stage DCF indicated cost of equity is 9.3 percent. Using the

³⁹ See USLLC Schedule D-4.8.

⁴⁰ A stock's total return is the percentage increase in the value of a shareholder's investment, assuming reinvestment of all dividends and adjusted for any stock splits.

⁴¹ Solving the DCF model as set forth in Mr. Bourassa's Direct Testimony at page 31 yields g = k -D1/P0. Substituting Staff's dividend yield of 2.9 for D1/P0 and the high end of the range of 12.8 percent for k we get: g =

mentioned above. Even the growth rate based on analyst estimates that I use -5.2 percent and 5.7 percent as shown on Schedule D-4.8 – falls far short of the implied growth rate investors have realized over the recent past. What this shows is that even when using forecasts of earnings growth, the indicated cost of equity can vastly understate the cost of equity.

- Q. PLEASE COMMENT ON MR. CASSIDY'S TESTIMONY (AT PAGE 37)
 CRITICIZING YOU FOR CONSIDERING THE FORECASTED
 INTEREST RATES AS A PROXY FOR THE RISK FREE RATE.
- A. By nature, the cost of capital is an opportunity cost: the prospective return available to investors from alternative investments of similar risk. In addition, we are setting rates that will be in effect for some future time period, the cost of capital estimation must be forward-looking. Since the cost of capital is prospective in nature it necessarily requires the use of a forward-looking bond yield.
- Q. ANYTHING ELSE.
- A. Yes. First, the average expected 30-year Treasury bond rates of 4.3 percent I employ in my CAPM analyses is higher than rates currently, but lower than Treasury bond rates were during most years used to determine historical relationships between interest rates and equity costs (and thus, risk premiums); the long-term risk-free rate (1926-2013) is 5.09 percent.⁴² As a result, risk premiums today are expected to be higher than in the past.
- Q. WHY IS THAT RISK PREMIUMS TODAY ARE EXPECTED TO BE HIGHER THAN RISK PREMIUMS IN THE PAST?
- A. There is a theoretical reason and many sources of empirical data that support the

^{8.7 = 11.6 - 2.9} and and the low end of the range of 11.6 percent for k we get: g = 9.9 = 12.8 - 2.9.

⁴² Morningstar, *Ibbotson SBBI 2014 Classic Yearbook*, Table 11-5.

⁴³ Morin, Chapter 4.; Harris and Marston, "Estimating Shareholders Risk Premia Using Analysts' Growth Rates," Financial Management, Summer 1992.;

44 Bourassa Dt. at 9-11.

⁴⁵ Blue Chip Financial Forecast, August 2014.

⁴⁶ Bourassa Dt. at 9-11.

proposition that equity risk premiums increase when interest rates decrease.43

Q. THANK YOU. PLEASE CONTINUE.

A. The Federal Reserve has kept bond yields artificially low through its aggressive bond buying programs and other measures.⁴⁴ The Federal Reserve's bond buying programs are not sustainable and the continuation of these programs is not unlimited. The ending of these programs is expected later this year and the Federal Reserve is expected to begin raising interest rates by the middle of next year.⁴⁵ Therefore, interest rate levels since 2008 and current interest rate levels are not representative of the long-term cost of capital.

Q. HAS MR. CASSIDY PROVIDED ANY ANALYSES OR STUDIES THAT SUGGEST THAT CURRENT INTEREST RATES ARE BETTER PROXIES FOR THE RISK FREE RATE IN THE CAPM.

A. No. Staff typically uses spot interest rates in its CAPM. In my view, the currently low interest rates (as the result of the Fed's unprecedented actions to spur the economy in recent years)⁴⁶ contribute to distortions in Staff's CAPM, particularly when spot rates are used. This may be one of the reasons why Staff has abandoned its CAPM at this time while I have not.

Q. PLEASE COMMENT ON MR. CASSIDY'S TESTIMONY (AT PAGE 38)
CRITICIZING YOU FOR CONSIDERING THE DIFFERENCES IN RISK
DUE TO THE SIZE OF USLLC COMPARED TO THE PUBLICLY
TRADED SAMPLE UTILITIES.

- A. I have not made a specific size adjustment for USLLC; rather, I have pointed out the differences in risk stemming from USLLC's higher business risk, operating leverage, and liquidity and have recommended a return on equity that is above the mid-point.⁴⁷ My recommendation of 11.0 percent, which is 70 basis points higher than the mid-point of my analyses of 10.3 percent, is conservative given the risks of an investment in USLLC. That said, Mr. Cassidy does not dispute that smaller companies are more risky than larger companies.⁴⁸
- Q. TO REBUT ANY IMPACT OF SIZE FOR UTILITY COMPANIES, MR. CASSIDY REFERENCES A STUDY BY ANNIE WONG (AT PAGE 38).

 ARE YOU FAMILIAR WITH THIS STUDY?
- A. I sure am. Over the past 10 plus years or so Staff's witnesses have repeatedly trotted out this one study to refute the notion that utilities like USLLC are more risky than the proxy companies because they are considerably and significantly smaller. Mr. Cassidy has done so in the past. In one recent case, he admitted on cross examination that he had never read Ms. Wong's actual paper, wasn't even sure what kind of paper it was (he thought it might be her doctoral thesis), and did not know whether it had ever been published. 49 Mr. Cassidy also stated that he was unaware of any other person that had published a similar conclusion. 50 I do not know what else Ms. Wong has done since, but I suspect this item of Ms. Wong's work, and its questionable conclusions, have found no greater audience than at public utility commissions where some party is trying to justify an unreasonably low ROE for a utility that is not publicly traded.

⁴⁷ Bourassa Dt. at 25.

⁴⁸ Cassidy Dt. at 38,

⁴⁹ Transcript from March 28, 2013 hearing at 237:18 – 239:8, Rio Rico Utilities, Inc.

⁵⁰ Id. 238:13-20

Q. HAS MS. WONG DISPROVED THE EXISTENCE OF A SIZE PREMIUM FOR SMALL UTILITY STOCKS?

- A. No. Actually, Ms. Wong's study has been criticized soundly: "[her] weak evidence provides little support for a small firm effect existing or not existing in either the industrial or the utility sector." Dr. Zepp found that Ms. Wong's empirical results were not strong enough to conclude that beta risk of utilities is unrelated to size; he found that her use of monthly, weekly, and daily data may be the cause of her inability to find a relationship; and he found other studies that show trading infrequency to be a powerful cause of bias in beta risk when time intervals of a month or less are used to estimate beta's for small stocks. The studies relied on in Mr. Zepp's published paper found, "when a stock is thinly traded, its stock price does not reflect the movement of the market, which drives down the covariance with the market and creates an artificially low beta estimate." Thus, Ms. Wong's weak results were due to a flawed analysis.
- Q. DON'T PASCHALL AND HAWKINS (QUOTED BY MR. CASSIDY ON PAGE 39) SUPPORT MS. WONG AND MR. CASSIDY'S VIEW THAT SMALLER WATER UTILITIES ARE <u>NOT</u> MORE RISKY THAN LARGER WATER UTILITIES?
- A. No, the authors do not argue against a small company risk premium for small water utilities. Instead, they merely suggest that the small company risk premium may be lower than the average company for the reasons they state. ⁵⁴ A very low risk

⁵¹ Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited," The Quarterly Review Economics and Finance, Vol. 43, Issue 3, Autumn 2003, 578-582.

⁵² Id. at 579.

⁵³ Id.

⁵⁴ Micheal A. Paschall and George B. Hawkins, "Do Smaller Companies Warrant a Higher Discount Rate for Risk": The Size Effect' Debate," *CCH Business Valuation Alert*, Vol 1, Issue No. 2, December 1999.

premium for USLLC compared to the average company is exactly what I recommend in this case.

According to the empirical financial market data provided by Duff & Phelps, the indicated size premium over for a company the size of USLLC would be 12.12 percent over the average company the size of USLLC. A size premium analysis provided in **Exhibit TJB-COC-RB1** indicates a size premium in the range of 99 to 377 basis points over the water proxy group. My implied risk premium is just 70 basis points, which is about 6 percent of the indicated small company risk premium for an average company the size of USLLC based on Duff&Phelps market data, and well below the bottom end of the range of the indicated additional risk premium over my water proxy group. Therefore, I think Paschall and Hawkins support my analysis not Mr. Cassidy's. That's true with respect to both, whether size matters, and, whether my recommended 11.0 return is conservative.

Q. DO YOU FIND ANY FURTHER SUPPORT IN PASCHALL AND HAWKINS?

A. Yes, as a matter of fact, I do. One of the main points of the authors' discussion was that the use of small company risk premium without consideration of the specific risks of the subject company could be subject to challenge. Recognition of the additional risk associated with an investment in USLLC compared to his water proxy group is something Mr. Cassidy fails to do.

That said, a great deal of my direct testimony was devoted to comparing the differences between the large publicly traded company and USLLC that would

⁵⁵ Duff&Phelps, 2014 Valuation Handbook. Exhibit 7.3, Decile 10z.

⁵⁶ 11.0 percent recommendation less mid-point of 10.2 percent.

reflect differences in risk, which is exactly what the authors would recommend. As Paschall and Hawkins conclude:

Id. at 580.Zepp, supra.

⁵⁷ Paschall supra.

Failing to consider the additional risk associated with most smaller companies, however, is to fail to acknowledge reality. Measured properly, small company stocks have proven to be more risky over a long period of time than have larger company stock. This makes sense due to the various advantages that larger companies have over smaller companies. Investors looking to purchase a riskier company will require a greater return on investment to compensate for that risk.

- Q. DO PASCHALL AND HAWKINS REFERENCE ANY STUDIES TO SUPPORT THE PROPOSITION THAT A PRIVATELY HELD SMALL WATER UTILITY HAS THE SAME RISK AS A LARGE PUBLICLY TRADED UTILITY?
- A. No.
- Q. ARE THERE ANY STUDIES THAT CONTRADICT MS. WONG'S FINDINGS?
- A. Yes, besides basic business sense, I am aware of two other studies that support the conclusion that small utilities are more risky than larger utilities. The first, a study conducted by the California Public Utilities Commission ("CPUC") looked at 58 water utilities. Based on that study, the CPUC Staff concluded that smaller water utilities are more risky and required higher equity returns than larger water utilities. This position was adopted by the CPUC. A second study, conducted by Dr. Zepp, showed that on average, the smaller water utilities in his study had a

99 basis point higher cost of equity.⁶⁰ In short, Ms. Wong's now 20 year-old study of unknown providence, should be given little to no weight in these proceedings.

- Q. DOES MR. CASSIDY DISPUTE YOUR ASSESSMENTS OF THE RELATIVE BUSINESS RISK BETWEEN THE PUBLICLY TRADED UTILITIES AND USLLC?
- A. No. As I showed in my direct testimony, USLLC is nearly 9 times more risky than the publicly traded utilities as measured by the co-efficient of variation of earnings. USLLC is roughly 8 times risky as measured by operating leverage. These are quantitative measures of relative business risk and not simply an opinion.

C. Rebuttal to the Cost of Equity Recommendations of RUCO

Q. PLEASE COMMENT ON THE RUCO DCF ANALYSIS?

A. As discussed previously on pages 9-12, the DCF model has a tendency to misspecify investors' required return rate when the market value of common stock differs significantly from its book value. The market-based DCF model will result in a total annual dollar return on book common equity equal to the total annual dollar return expected by investors only when market and book values are equal, but market values and book values of common stocks are rarely at unity.

Q. WHAT ARE THE RESULTS OF RUCO'S DCF ANALYSIS?

A. RUCO DCF results are just 7.3 percent to 7.4 percent.⁶³ By comparison of the actual and authorized returns of the public traded utilities as discussed on pages 5 and 6 (9.8 percent to 10.6 percent) and the recent annualized total market returns

⁶⁰ Id.

^{24 | 61} Bourassa Dt. at 25.

Id. at 26.

⁶³ See RUCO Schedule RBM-4, page 1.

for the water utilities of 11.6 to 12.8 percent. Mr. Mease's own CE analysis indicated a return of 9.8 percent. Mr. Mease's results are extremely low by comparison and do not pass the smell test.

- Q. DOESN'T MR. MEASE REPORT (AT PAGE 11) THAT HIS DCF ANALYSIS RESULTS ARE IN THE RATE OF 7.3 to 8.7 PERCENT?
- A. Yes. Mr. Mease gets his 8.7 percent by reporting a composite median which he does not define or explain. The 8.7 percent is the result he reports on his summary cost of capital schedule (Schedule RDM-2) as the result for his DCF analysis. This "slight of hand" makes me think he is reporting statistics which he can then pick and choose from to cover up for his unreasonably low results. Regardless, like the Staff DCF results, USLLC would have no realistic opportunity to actually earn Mr. Mease's market-based rate of return at either 7.3 percent of 8.7 percent. I could perform the same analysis for the Staff DCF result as I did on pages 9-10 to demonstrate my assertion.

Q. ANTHING ELSE?

- A. Yes. Mr. Mease reports a 3.9 percent indicated cost of equity for Middlesex Water on Schedule RBM-4. This is less than the current yield on Baa investment grade bonds of 4.73 percent.⁶⁴ In fact, there is only one DCF indicated cost of equity in Mr. Mease's schedule that is above 8.7 percent.
- Q. PLEASE COMMENT ON THE RUCO CAPM ANALYSIS?
- A. Mr. Mease's CAPM analysis produces an indicated cost of equity of just 7.25 percent. I am not surprised by his low CAPM results. His analysis is flawed in at least five respects. First, he has incorrectly relied upon a historical risk-free rate

⁶⁴ Moody's Seasoned Baa bond yield as of October 1, 2014 as reported by the Federal Reserve.

despite the fact that both ratemaking and the cost of capital are prospective. Second, he has exclusively relied on historical measures of the market risk premium and does not employ a forward looking market risk premium. Third, his historical measures of the market risk premium are measured on market indices which are made up of the largest publicly traded companies and he does not recognize the additional risk premium of much smaller firms. Fourth, he employs a market risk premium that is based in part on historic geometric means, which should not be used in a prospective model like the CAPM. Fifth, he uses total returns on long-term government bonds in computing the market risk premium, which is inconsistent with treating the security as a riskless asset.

- Q. PLEASE ELABORATE ON MR. MEASE'S USE OF HISTORICAL YIELDS ON LONG-TERM U.S. TREASURIES.
- A. Mr. Mease relies on historical yields on long-term U.S. Treasury bond yields (i.e. 3 month recent historical average of 20-year U.S. Treasury bond yields) for his CAPM analysis. I have several concerns about the use of current interest rates. First, it ignores the fact that both the cost of capital and ratemaking are prospective. Second, the average 20-year Treasury bond rates of 3.47 percent computed by Mr. Mease is lower than Treasury bond rates were during most years used to determine historical relationships between interest rates and equity costs (and thus, risk premiums). Because risk premium vary inversely with interest rates, risk premiums today are expected to be higher than in the past. Thus, Mr. Mease's MRP which are based on an historical time period from 1926 to 2012 conflicts with the current low interest rate levels. Let me explain. On page 14 of his testimony,

⁶⁵ Mease Dt. at 12.

⁶⁶ Id.

Mr. Mease shows the arithmetic mean and geometric mean total return on long-term government bonds for the years 1926-2012 were 6.1 percent and 5.7 percent, respectively. On a correct income return basis, the arithmetic mean and geometric mean income return on long-term government bonds for the year 1926-2012 were 5.2 and 5.1 percent, respectively. All of these bond returns are higher than Mr. Mease's estimate of the risk free rate of 3.47 percent. As the historical data shows interest rates upon which Mr. Mease's MRP is developed far exceed the 3.47 percent he employs in his CAPM for the risk free rate

- Q. PLEASE EXPLAIN WHAT YOU MEAN BY "CORRECT INCOME RETURN BASIS".
- A. I will discuss this in more depth at page 26. For now, total return is comprised of three components; the income return, the capital appreciation return and the reinvestment return. Only the income return is the unbiased estimate of the riskless rate because it represents the riskless portion of the return. Because bond prices vary with prevailing bond yields over time, the inclusion of the capital appreciation return and reinvestment returns introduces price risk into the total return. Therefore, the total return does not represent a riskless return.
- Q. PLEASE CONTINUE.
- Q. The arithmetic mean and geometric mean for long-term income returns on government bonds have remained fairly stable at around 5.1 to 5.2 percent since 2009 (i.e. 1926-2009, 1926 2010, 1926-2011, 1926-2012, and 1926-2013).⁶⁷ While interest rate levels have been and are expected to remain low in the short-term, long-term interest rate levels are expected to rise in the next few years.

⁶⁷ As reported by Morrningstar.

- A. All things being equal, the cost of equity moves in the same direction as interest rates. Lower interest rates on U.S Treasuries ("risk-free" rate) imply lower equity returns and visa-versa. However, the risk premium required to compensate investors also impacts the cost of equity. Lower interest rates are associated with higher equity risk premiums. Higher risk premiums required by investors imply higher equity costs and vice versa. Risk premiums are impacted by uncertainty not only future interest rates, but business and economic conditions, expected inflation (or deflation), and other risk factors including business risk, regulatory risk, financial risk, construction risk, and liquidity risk. As noted on page 11, investors in Mr. Mease's water proxy group have realized market returns of 11.6 percent to 12.8 percent over the past several years despite the low interest rate environment.
- Q. PLEASE COMMENT ON MR. MEASE'S FAILURE TO USE A PROSPECTIVE MARKET EQUITY RISK PREMIUM.
- A. As noted on pages 16-17 above, the cost of capital is prospective in nature. As such, it necessarily requires the use of a forward-looking MRP.
- Q. PLEASE COMMENT ON MR. MEASE'S USE OF LARGE COMPANY INDEXES TO COMPUTE HIS MARKET RISK PREMIUM.
- A. In his CAPM analysis, Mr. Mease uses the total returns on the S&P 500 (1926-2012) in the computation of his market risk premium.⁶⁸ The S&P 500 consists of the 500 largest companies and only approximately 20 percent of the S&P 500

⁶⁸ Mease Dt. at 14.

would be considered Mid Cap companies. Further, there are no companies in the Low-Cap or Micro-Cap categories. Because it is heavily weighted with Large-Cap companies, the S&P 500 is essentially a large company index. Morningstar refers to the S&P 500 as a large company index and cautions that "if using a large company index to calculate the equity risk premium, an adjustment is usually made to account for the different risk and return characteristics of small stocks." ⁶⁹

- Q. SHOULD THE CAPM RESULTS BE ADJUSTED TO REFLECT THE SMALL SIZE OF USLLC COMPARED TO MR. MEASE'S PROXY GROUP?
- A. Yes. The empirical evidence shows that smaller firms have higher betas.

 Morningstar reports that beta is inversely related to size. ⁷⁰ In other words, as firm size decreases, beta increases. Because the CAPM is incomplete it should be adjusted to reflect the additional risks of smaller firms.⁷¹
- Q. PLEASE COMMENT ON MR. MEASE'S USE OF GEOMETRIC MEANS IN ESTIMATING THE HISTORICAL MARKET RISK PREMIUM FOR HIS CAPM ANALYSIS.
- A. Mr. Mease employs a geometric mean in calculating the market risk premium in his primary CAPM.⁷² His choice to use geometric average is incorrect and depresses his cost of equity estimate. As various finance experts have explained,

⁶⁹ Morningstar, Ibbotson SBBI 2014 Classic Yearbook, p. 152.

Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook*, Table 7-5, Table 7-8, Table 7-10, Table 7-11, and Table 7-12. Morningstar reports betas by portfolio for ten decile sizes using several alternative benchmarks. All alternatives show that as firm size decreases beta increases.

⁷¹ Bourassa Dt. at 37 and 42.

⁷² Mease Testimony, p. 14.

an arithmetic mean is the correct approach to use in estimating the cost of capital.⁷³
As Dr. Morin states:

Because valuation is forward-looking, the appropriate average is the one that most accurately approximates the expected future rate of return. The best estimate of the expected returns over a future holding period is the arithmetic average....

There is no theoretical or empirical justification for the use of geometric mean rates as a measure of the appropriate discount rate or computing present values. In any event, the CAPM is developed on the premise of expected returns being averages and risk being measured with standard deviation. Since the latter is estimated around the arithmetic average, not the geometric average, it is logical to stay with the arithmetic averages to estimate the market risk premium. ⁷⁴

The consensus among these experts makes sense. Only arithmetic mean return rates and yields are appropriate for cost of capital purposes because ex-post (historical) total returns and equity risk premiums differ in size and direction over time, providing insight into the variance and standard deviation of returns. The geometric mean of ex-post equity risk premiums provides no insight into the potential variance of future returns because the geometric mean relates the change over many periods to a constant rate of change, rather than the year-to-year fluctuations, or variance, which are critical to risk analysis. In short, the

⁷³ Zvi Bode, Alex Kane, Alan J. Marcus, Investments (McGraw-Hill 6th ed., 2005)("Bode"), pp. 864-865.
Richard A. Brealey, Stewart C. Myers, Frankin Allen, Principles of Corporate Finance (McGraw-Hill 11th ed.)("Brealey"), pp. 162-163.

⁷⁴ Morin, pp. 156-57 (emphasis added).

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⁷⁵ Mease Testimony, p. 54.

conclusion of these financial experts is that while the geometric mean is useful in comparing what happened in the past, it should not be used to determine estimates of expected future returns or market risk premiums.

Q. WHAT OTHER ISSUE DO YOU HAVE WITH MR. MEASE'S COMPUTATION OF THE MARKET RISK PREMIUM?

A. As mentioned earlier on page 24, Mr. Mease incorrectly uses total returns on long-term government bonds when computing his estimate of the market risk premium. Although he has relied on *Morningstar*'s historical returns in his CAPM analysis, ⁷⁵ Mr. Mease has ignored *Morningstar*'s recommendations regarding the use of the income return, and not the total return on U.S. Treasury securities, in deriving an equity risk premium. Pages 55 and 56 of the Ibbotson SBBI - 2013 Valuation Yearbook states:

Another point to keep in mind when calculating the equity risk premium is that the income return on the appropriate-horizon Treasury security, rather than the total return, is used in the calculation. The total return is comprised of three return components: the income return, the capital appreciation return, and the reinvestment return. The income return is defined as the portion of the total return that results from periodic cash flow or, in this case, the bond coupon payment. The capital appreciation return results from the price change of a bond over a specific period. Bond prices generally change in reaction to unexpected fluctuations in yields. Reinvestment return is the return on a given month's investment income when reinvested into the same asset class in the subsequent months of the year. The income return is thus used in the estimation of the

equity risk premium because it represents the truly riskless portion of the return.

* * * *

Anticipated changes in yields are assessed by the market and figured into the price of a bond. Future changes in yields that are not anticipated will cause the price of the bond to adjust accordingly. Price changes in bonds due to unanticipated changes in yields introduce price risk into the total return. Therefore, the total return on the bond series does not represent the riskless rate of return. The income return better represents the unbiased estimate of the purely riskless rate of return, since an investor can hold a bond to maturity and be entitled to the income return with no capital loss. 76

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF CAPITAL?

A. Yes. Although my silence on other positions of the other parties in this case on cost of capital and that were not addressed in my rebuttal testimony does not constitute agreement with them.

⁷⁶ Morningstar, Ibbotson SBBI 2013 Valuation Yearbook, 55-56 (emphasis added).

D SCHEDULES

Utility Source, LLC Test Year Ended December 31, 2012 Summary of Cost of Capital

Exhibit Rebuttal Rebuttal Schedule D-1 Page 1 Witness: Bourassa

Consolidated Capital Structure

Actual	End	of Test	Year

Projected Capital Structure

		1.17.17.17.17.17.17.17.17.17.17.17.17.17								
Line <u>No.</u>	Item of Capital	Dollar <u>Amount</u>	Percent of <u>Total</u>	Cost Rate	Weighted Cost	Dollar <u>Amount</u>	Percent of Total	Cost Rate	Weighted Cost	
1 2	Long-Term Debt	-	0.00%	0.00%	0.00%	•	0.00%	0.00%	0.00%	
3 4	Stockholder's Equity	3,722,209	100.00%	11.00%	11.00%	3,649,952	100.00%	11.00%	11.00%	
5	Totals	3,722,209	100.00%		11.00%	3,649,952	100.00%		11.00%	
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15										
16 17										
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21										
22	SUPPORTING SCHEDULES:					RECAP SCHEDULE	<u>\$:</u>			
23	D-1									
24	D-3									
25	D-4									
26										
27	Tantimonic									
28 29	Testimony									
30										

Utility Source, LLC Test Year Ended December 31, 2012 Cost of Long Term Debt

Exhibit Rebuttal Rebuttal Schedule D-2 Page 1 Witness: Bourassa

1 2 3 4 5	Description of Debt	Amount Outstanding	Annual	Interest		_			
2 3 4 5			Interest	Rate	Weighted <u>Cost</u>	Amount <u>Outstanding</u>	Annual <u>Interest</u>	Interest <u>Rate</u>	Weighted Cost
4 5			-	0.000%	0.000%			0.000%	0.000%
5			-	0.000%	0.000%		-	0.000%	0.000%
			-	0.000%	0.000%			0.000%	0.000%
_			-	0.000%	0.000%		-	0.000%	0.000%
6			-	0.000%	0.000%			0.000%	0.000%
7			_	0.000%	0.000%			0.000%	0.000%
8			-	0.000%	0.000%		-	0.000%	0.000%
9				0.000%	0.000%		_	0.000%	0.000%
10			-	0.000%	0.000%		_	0.000%	0.000%
11								0.00070	0.00070
12				_					
	Totals	\$ -	-		0.000%	\$ -	-	-	0.000%
14				-				=	
15									
	Supporting Schdules:								
	E-1 E-2								
19	E-2								
20									
21									
22									
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Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit Rebuttal Rebuttal Schedi Page 1 Witness: Bourassa

Line										
<u>No.</u>		r.				E	f Dool a store	13/		
1 2	End of Test Year					End of Projected Year				
3	Description	Shares		Dividend		Shares		Dividend		
4	of Issue	Outstanding	Amount	Requirement	t	Outstanding	Amount	Requirement		
5 6										
6	LIGT ADDUGABLE	NO POSSEDDA	- D O T O O I	(1001155.05	OUTOTANI	2010				
7 8	NOT APPLICABLE,	NO PREFERRE	-D 210CF	(ISSUED OR	OUISTANL	JING				
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21	SUPPORTING SCH	EDULES:			RECAP SO	CHEDULES:				
22	E-1				D-1					
23										
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39										
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Utility Source, LLC Test Year Ended December 31, 2012 Cost of Common Equity

Exhibit Rebuttal Rebuttal Schedule D-4 Page 1 Witness: Bourassa

Line		
No.		
1		
2	The Company is proposing a cost of common equity of	11.00% .
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13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19	D-4.1 to D-4.18	
20		

Utility Source, LLC Summary of Results

Exhibit Rebuttal Schedule D-4.1 Witness: Bourassa

Line		. *************************************
No.		
1		
2		
3		Median
4	<u>Method</u>	Result
5		
6	DCF Constant Growth Estimates ¹	9.0%
7		
8	CAPM Estimates ²	9.7%
9		
10	Build-up Method Estimates ³	11.6%
11		
12	Mid-point	10.3%
13		
14		
15		
16	Recommended Cost of Equity ⁴	11.0%
17		
18		
19	1 See Rebuttal Schedule D-4-8	
20	2 See Rebuttal Schedule D-4.12	
21	3 See Rebuttal Schedule D-4.18	
22	* Testimony	
23		

Utility Source, LLC Selected Characteristics of Sample Group of Water Utilities

Exhibit Rebuttal Schedule D-4.2 Witness: Bourassa

Line							TVIIII ICAS. D	Ourassa		
No.			Op	erating		Net	S&P	Moody's		
1		% Water		venues		Plant	Bond	Bond	Allowed	Book
2		Revenues ¹		illions)1	(1	nillions)1	Rating ¹	Rating ¹	ROE (%)	ROE (%)
3	Company ¹				**			LOBINIA_		1.00 (70)
4	1. American States	71%	\$	458.4	\$	988.7	A+	A2	9.99	12.30
5	2. Aqua America	98%	\$	770.9	Š	4,233.8	AA-	NR	10.29	14.60
6	3. California Water	100%	\$	587.0	\$	1,539.5	AA-	NR	9.99	7.90
7	4. Connecticut Water	100%	\$	94.9	\$	483.8	A/A-	NR	9.75	11.10
8	5. Middlesex	88%	\$	115.1	\$	451.4	Α	NR	10.15	8.90
9	6. SJW Corp.	95%	\$	277.5	\$	915.0	Α	NR	9.99	6.70
10										
11	Average	92%	\$	384.0	\$	1,435.4			10.03	10.25
12										
13	Utility Source, LLC	100%	\$	0.3	\$	4.0	NR	NR		
14	(Adjusted as of December 31, 2012)									
15										
16										
17										
18										
19										
20										
21	¹ AUS Utility Reports (September 2014).									
22										
23										
24										
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Utility Source, LLC Capital Structures

Exhibit Rebuttal Schedule D-4.3 Witness: Bourassa

No.		Book '	Book Value ¹				
1		Long-Term	Common	Long-Term	Common		
2		Debt	<u>Equity</u>	Debt	<u>Equity</u>		
3	Company						
4	American States	39.8%	60.2%	21.5%	78.5%		
5	2. Aqua America	48.9%	51.1%	25.9%	74.1%		
6	3. California Water	41.6%	58.4%	28.0%	72.0%		
7	Connecticut Water	47.0%	53.0%	32.7%	67.3%		
8	5. Middlesex	40.7%	59.3%	29.0%	71.0%		
9	6. SJW Corp.	51.0%	49.0%	38.1%	61.9%		
10							
11	Average	44.8%	55.2%	29.2%	70.8%		
12							
13	Utility Source, LLC	0.0%	100.0%	N/A	N/A		
14	(Actual December 31, 2012)			* ****	****		

¹ Value Line Analyzer Data (September 28, 2014)

² Adjusted Per Rebuttal Schedule D-1

Utility Source, LLC Comparisons of Past and Future E stimates of Growth

Exhibit Rebuttal Schedule D-4,4 Witness: Bourassa

Line								
<u>No.</u>								
1								
2		[1]	[2]	[3]	[4]	[5]	[6]	[7]
3								Average of
4								Future and
5		Five-vea	r historical av e	rage annual ch	anges		Average	Historical
6			Book			Average	Future	Growth
7	Company	Price ¹	Value ²	EPS2	DPS2	Col 1-4	Growth ³	Col 5-6
8	1. American States	16.07%	6.50%	13.00%	6.50%	10.52%	2.67%	6.59%
9	2. Aqua America	11.70%	6.00%	11.00%	7.00%	8.92%	6.00%	7.46%
10	3. California Water	4.27%	4.50%	4.00%	1.50%	3.57%	6.50%	5.03%
11	4. Connecticut Water	12.77%	8.00%	8.00%	2.00%	7.69%	5.00%	6.35%
12	5. Middlesex	8.36%	3.00%	1.50%	1.50%	3.59%	3.60%	3.60%
13	6. SJW Corp.	4.24%	2.50%	0.50%	3.50%	2.69%	10.50%	6.59%
14	•							
15								
16	GROUP AVERAGE	9.57%	5.08%	6.33%	3.67%	6.16%	5.71%	5.94%
17	GROUP MEDIAN	10.03%	5.25%	6.00%	2.75%	5.64%	5.50%	6.47%
18								

¹ Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.
² Value Line Analyzer Data, September 28, 2014

19 20

³ See Rebuttal Schedule D-4.6.

Utility Source, LLC Comparisons of Past and Future Estimates of Growth

Exhibit Rebuttal Schedule D-4.5 Witness: Bourassa

1 :								
Line								
No.								
1								
2		[1]	[2]	[3]	[4]	[5]	[6]	[7]
_								Average of
3		_						Future and
4		Ten-year	r historical aver	<u>rage annual ci</u>	nanges		Average	Historical
5			Book			Average	Future	Growth
6	Company	Price ¹	<u>Value²</u>	EPS ²	DPS ²	Col 1-4	Growth ³	Col 5-6
7	1. American States	12.91%	5.00%	6.50%	3.00%	6.85%	2.67%	4.76%
8	2. Aqua America	10.31%	8.50%	7.00%	7.50%	8.33%	6.00%	7.16%
9	3. California Water	10.19%	5.00%	4.00%	1.00%	5.05%	6.50%	5.77%
10	Connecticut Water	6.58%	4.00%	0.50%	1.50%	3.14%	5.00%	4.07%
11	5. Middlesex	4.38%	4.50%	3.50%	1.50%	3.47%	3.60%	3.53%
12	6. SJW Corp.	12.91%	5.50%	4.00%	5.00%	6.85%	10.50%	8.68%
13	•							
14								
15	GROUP AVERAGE	9.54%	5.42%	4.25%	3.25%	5.62%	5.71%	5.66%
16	GROUP MEDIAN	10.25%	5.00%	4.00%	2.25%	5.95%	5.50%	5.27%
17								•
18								
19								
20	1 Average of changes in	annual stock pric	es endina Decemi	ber 31, 2013. Da	ata from Yahoo	Finance webs	ite	
	2	•	•					

Average of changes in annual stock prices ending December 31, 2013. Data from Yahoo Finance website.
 Value Line Analyzer Data, September 28, 2014.
 See Rebuttal Schedule D-4.6.

Utility Source, LLC									
Analysts Forecasts of Earnings Per Share Growth									
•									

Exhibit
Rebuttal Schedule D-4.6
Witness: Bourassa

Line					
<u>No.</u>					
1		[1]	[2]	[3]	[4]
2 3					
3					
4		ESTIMATES	OF EARNING	S GROWTH	Average
5				Value	Growth (G)
6	Company	<u>Yahoo¹</u>	Zacks ¹	Line ²	(Cols 1-3)3
7	 American States 	1.00%	1.00%	6.00%	2.67%
8	Aqua America	4.00%	5.50%	8.50%	6.00%
9	California Water	6.00%	6.00%	7.50%	6.50%
10	 Connecticut Water 	5.00%	5.00%	5.00%	5.00%
11	Middlesex	2.70%		4.50%	3.60%
12	6. SJW Corp.	14.00%		7.00%	10.50%
13					
14					
15	GROUP AVERAGE	5.45%	4.38%	6.42%	5.71%
16	GROUP MEDIAN				5.50%
17					
18					
19	1 Data as of October 2, 2014				
20	² Data as of September 28,		4		
21	2 Where no data available o	r single estimate, av	erage of other	utilities assume	d to estimate fe
22					
23					
24					
25					
26					
27					
28					

¹ Data as of October 2, 2014
² Data as of September 28, 2014.
² Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Utility Source, LLC Current Dividend Yields for Water Utility Sample Group

Exhibit Rebuttal Schedule D-4.7 Witness: Bourassa

<u></u>						
	Company	verage Stock ice (P₀)¹	_	urrent end (D ₀) ¹	Current Dividend Yield (D ₀ /P ₀) ¹	Average Annual Dividend <u>Yield (D₀/P₀)^{1,2}</u>
	1. American States	\$ 31.20	\$	0.87	2.79%	3.15%
	2. Aqua America	\$ 24.24	\$	0.66	2.72%	2.80%
	3. California Water	\$ 23.41	\$	0.66	2.82%	3.36%
	4. Connecticut Water	\$ 32.48	\$	1.03	3.17%	3.62%
I	5. Middlesex	\$ 20.24	\$	0.77	3.80%	3.96%
	6. SJW Corp.	\$ 26.85	\$	0.76	2.83%	2.95%
!	·					
	Average				3.02%	3.31%
	Median				2.83%	3.26%

Line

¹ Yahoo Finance. 60 day average of stock prices as of October 2, 2014.
² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Utility Source, LLC Discounted Cash Flow Analysis DCF Constant Growth

Exhibit Rebuttal Schedule D-4.8 Witness: Bourassa

Line <u>No.</u> 1 2 3		[1]	[2]	{3}	[4] Indicated Cost of
4			Expected		Equity
5		Dividend	Dividend		k≖Div Yld + g
6		Yield (D ₀ /P ₀)	Yield $(D_1/P_0)^2$	Growth (g)	(Cols 2+3)
7					
8	DCF - Past and Future Growth	3.02%	3.20%	5.94% ³	9.1%
9					
10	DCF - Future Growth	3.02%	3.20%	5.71% 4	8.9%
11					
12					
13	Average	3.02%	3.20%	5.82%	9.0%
14					
15	Median	3.02%	3.20%	5.82%	9.0%
16					
17					

¹ Spot Dividend Yield = D0/P0. See Rebuttal Schedule D-4.7.

18 19

20

21

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Average of Past and Future Growth. See Rebuttal Schedule D-4.4, column 7

Growth rate (g). Average of Analyst Estimates Future Growth. See Rebuttal Schedule D-4.6.

Utility Source, LLC Exhibit Market Betas Rebuttal Schedule D-4.9 Witness: Bourassa

	Company	Beta (β) ¹
1.	American States	0.70
2.	Aqua America	0.70
3.	California Water	0.70
4.	Connecticut Water	0.65
5.	Middlesex	0.70
6.	SJW Corp.	0.85
	Average	0.72

¹ Value Line Investment Analyzer data (Aug 5, 2013)

Line <u>No.</u>

1

12 13

Value Line investment Analyzer data (Aug 5, 2013)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Utility Source, LLC Forecasts of Long-Term Interest Rates

Exhibit Rebuttal Schedule D-4.10 Witness: Bourassa

Value Line ² 3.20% ¹ 3.90% ³ 4.40% ³ 4.20% Average Average 11 12 13 Federal Reserve Monthly Average 30 Year U.S. Treasury 2 June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 22	Line							
Average Aug-14 2015 2016 Average Blue Chip Consensus Forecasts Value Line Value Line Average 3.20% 1 4.10% 2 4.70% 2 4.40% Average 3.20% 1 3.90% 3 4.40% 3 4.20% Average 4.30% 11 12 13 1 Federal Reserve Monthly Average 30 Year U.S. Treasury 15 2 June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 16 3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 20 20 21 22								
Average Description								
Description Aug-14 2015 2016 Average								
Blue Chip Consensus Forecasts 3.20% 1.4.10% 2.4.70% 2.4.40% Value Line 2.3.20% 1.3.90% 3.4.40% 3.4.20% Average 3.20% 1.3.90% 3.4.40% 3.4.20% Average 4.30% 11 12 13 1 Federal Reserve Monthly Average 30 Year U.S. Treasury 2 June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 22			_					
Blue Chip Consensus Forecasts 3.20% 1 4.10% 2 4.70% 2 4.40% Value Line 3 3.20% 1 3.90% 3 4.40% 3 4.20% Average 4.30% Federal Reserve Monthly Average 30 Year U.S. Treasury January 1-Federal Reserve Monthly Average 30 Year U.S. Treasury Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury		<u>Description</u>	Aug-14	<u>2015</u>		<u>2016</u>		Average
7 8 Value Line ² 3.20% ¹ 3.90% ³ 4.40% ³ 4.20% 9 10 Average 4.30% 11 12 13 14 1 Federal Reserve Monthly Average 30 Year U.S. Treasury 15 2 June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 16 3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 22	5	•			_		_	
8 Value Line ² 3.20% ¹ 3.90% ³ 4.40% ³ 4.20% 9 10 Average 4.30% 11 12 13 1 Federal Reserve Monthly Average 30 Year U.S. Treasury 15 ² June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 16 ³ Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 22	6	Blue Chip Consensus Forecasts ¹	3.20% 1	4.10%	2	4.70%	2	4.40%
9 10 Average 4.30% 11 12 13 14 1 Federal Reserve Monthly Average 30 Year U.S. Treasury 15 2 June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 16 3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 22	7							
Average 11 12 13 14 1 Federal Reserve Monthly Average 30 Year U.S. Treasury 15 2 June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 16 3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 22	8	Value Line ²	3.20% 1	3.90%	3	4.40%	3	4.20%
Average 11 12 13 14 1 Federal Reserve Monthly Average 30 Year U.S. Treasury 15 2 June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 16 3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 22	9							
11 12 13 14 1 Federal Reserve Monthly Average 30 Year U.S. Treasury 15 2 June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 16 3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 22		Average						4.30%
12 13 14 1 Federal Reserve Monthly Average 30 Year U.S. Treasury 15 2 June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury 3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21 22								
 ¹ Federal Reserve Monthly Average 30 Year U.S. Treasury ² June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury ³ Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 18 19 20 21 22 								
 ² June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury ³ Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 18 19 20 21 22 	13							
3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury 17 18 19 20 21	14	¹ Federal Reserve Monthly Average 30 Year U.S. Treasury						
17 18 19 20 21 22	15	² June 2014 and September 2014 Blue Chip Financial Forecasts consensus long	g-term forecast of 30 Ye	ear U.S.Tre	asury			
18 19 20 21 22	16	3 Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury						
19 20 21 22	17							
20 21 22	18							
21 22	19							
22								
	21							
22								
	23							
24	24							

¹ Federal Reserve Monthly Average 30 Year U.S. Treasury
² June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury
³ Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury

Utility Source, LLC Computation of Current Market Risk Premium

Exhibit Rebuttal Schedule D-4.11

Line											Witness: Bourassa
<u>No.</u> 1			Expected				Expected		Monthly Average		Market
2		Dividend	Dividend				Market		30 Year		Risk
3	Month	Yield (D ₀ /P ₀) ¹	Yield (D ₁ /P ₀) ²	+	Growth (g)3	=	Return (k)		Treasury Rate ⁴	=	Premium (MRP)
4	Feb	2.01%	2.21%	+	9.83%	=	12.04%	-	3.17%	=	8.87%
5	Mar	2.01%	2.20%	+	9.83%	=	12.04%	-	3.16%	=	8.88%
6	April	1,98%	2.16%	+	9.33%	=	11.49%		2.93%	_	8.56%
7	May	2.01%	2.20%	+	9.50%	=	11.70%		3.11%	=	8.59%
8	June	2.14%	2.34%	+	9.50%	=	11.84%	_	3.40%	=	8.44%
9	July	2.02%	2.21%	+	9.50%	_	11.71%		3.61%	=	8.10%
10	Aug	2.14%	2.34%	+	9.50%	=	11.84%		3.76%	=	8.08%
11	Sept	2.10%	2.30%	+	9.50%	=	11,80%	_	3.79%	=	8.01%
12	Oct	2.00%	2.19%	+	9.50%	=	11,69%		3.68%	=	8.01%
13	Nov	1.99%	2.18%	+	9.50%	=	11.68%		3.80%	=	7.88%
14	Dec 2013	1.93%	2.11%	+	9.50%	=	11.61%		3.89%	=	7.72%
15	Jan 2014	2.01%	2.21%	+	9.83%	=	12.04%	_	3.77%	=	8.27%
16	Feb	2.01%	2.20%	+	9.50%	=	11.70%		3.66%	=	8.04%
17	Mar	2.01%	2.20%	+	9.50%	=	11.70%	-	3.62%	=	8.08%
18	Apr	1.98%	2.16%	+	9.50%	=	11.66%	_	3.52%	=	8.14%
19	May	2.01%	2.20%	+	9.42%	=	11.62%	-	3.39%	=	8.23%
20	June	1.98%	. 2.16%	+	9.33%	=	11.50%		3.42%	=	8.08%
21	July	2.05%	2.24%	+	9.50%	±	11.74%		3.33%	*	8.41%
22	Aug	2.01%	2.20%	+	9.50%	=	11.70%		3.20%	=	8.50%
23	-										
24	Recommended	2.01%	2.20%	+	9.44%	=	11.65%	-	3.32%	=	8.33%
25											
26	Short-term Trends										
27	Recent Twelve Months Avg	2.01%	2.20%	+	9.51%	=	11.70%	-	3.59%	=	8.11%
28	Recent Nine Months Avg	2.00%	2.19%	+	9.51%	=	11.70%	-	3.53%	=	8.16%
29	Recent Six Months Avg	2.01%	2.19%	+	9.46%	=	11.65%	-	3.41%	=	8.24%
30	Recent Three Months Avg	2.01%	2.20%	٠	9.44%	=	11.65%	-	3.32%	=	8.33%
31	-										· · ·
32											
30	Notes:										
	1							-			

33 34 35 36 37 38 39 Monthly average 30 year U.S. Treasury. Federal Reserve.

Notes:

Median Dividend Yield (D₀/P₀) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data (monthly) - Value Line 1700 Stocks 31

³² Expected Dividend Yield (D₁/P₀) equals current average dividend yield (D₀/P₀) times one plus growth rate(g).

³ Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.

Utility Source, LLC Traditional Capital Asset Pricing Model (CAPM)

Exhibit Rebuttal Schedule D-4.12 Witness: Bourassa

Line										
<u>No.</u> 1		Rf¹	+	beta ⁴	×	RP _M		+	=	k
2										
3	Historical Market Risk Premium CAPM	4.30%	+	0.72	×	6.70%	3	+	=	9.1%
4										
5	Current Market Risk Premium CAPM	4.30%	+	0.72	×	8.33%	4	+	=	10.3%
6										
7	Average									9.7%
8										
9	Median									9.7%
10										

¹ Forecasts of long-term treasury yields. See Rebutal Schedule D-4.10.
² Value Line Investment Analyzer data. See Rebutal Schedule D-4.9.

11

15 16

¹² 13

³ Historical Market Risk Premium from (Rp) MorningStar SBBI 2014 Classic Yearbook Table 11-5 Long-Horizon ERP 1926-2013. 14

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11.

Exhibit Rebuttał Schedule D-4.13 Witness: Bourasse

						_	Measur			_			
							(Mi	llion	15)		_		
			MV		Book				Yr Avg.		Total		Yr Avg.
Company	Symbol		Equity ¹		Equity*		MVIC1	N	et Income		Assets ²	F	EBITDA ³
1 American States	AWR	\$	1,191	\$	492	\$	1,517	\$	45	\$	1,281	5	141
2 Agua America	WTR	Š	4,195	\$	1,535	\$	5,663		155	Š	4,859	Š	430
3 California Water	CWT	\$	1,096	Š	598	Š	1,522		42	Š	1,996	Š	146
4 Connecticut Water	CTWS	Š	359		197	Š	534		13	Š	579	Š	28
5 Middlesex	MSEX	ż	317	Š	189	Š	447		14	Š	562	Š	39
6 SJW Corp.	SJW	\$	544	\$	322	Š				Š	1,087	Š	87
Utility Source, LLC	Proforma		NA	\$	3.7		NA	\$	(0.2)	\$	11.1	\$	0.4
1 From Zacks Investment Research data													
² From Zacks Investment Research. From E-1 for subject utility.													
Net Income. From Zacks Investment Research and Company ACC re													
Net Income. From Zacks rivesiment Research and Company ACC rep	ports												
Net Income Data (\$ millions)													
Company	Symbol		2013		2012		2011		2010		2009	1	Average
American States	AWR	\$	62.7	\$	54.0	\$	45.9	\$	33.2	\$	29.5	5	45.1
												- 2	

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

⁴ Earnings before Interest, Texes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data (\$ millions)												
	Company	Symbol		2013		2012	2011	2010		2009	(Average
American States		AWR	\$	161.0	\$	154.0	\$ 133.3	\$ 134.4	\$	122.6	s	141.1
Aqua America		WTR	\$	424.3	\$	439.0	\$ 397.8	\$ 473.2	5	415.2	\$	429.9
California Water		CWT	\$	155.0	\$	151.0	\$ 143.3	\$ 155,7	\$	125.5	\$	146.1
Connecticut Water		CTWS	\$	43.4	\$	30.0	\$ 24.2	\$ 22.5	\$	20.3	\$	28.1
Middlesex		MSEX	\$	42.1	\$	39.0	\$ 34.6	\$ 43.3	\$	34.8	\$	38.7
SJW Corp.		wus	\$	91.4	\$	90.0	\$ 87.1	\$ 75.4	\$	93.5	\$	87.5
Utility Source, LLC			s	(0.0)	2	0.0	\$ (0.0)	(0.01)		0.02		0.42

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance EBITDA data for subject utility from E-1 and/or ACC reports

MRP_{ms} Estimates Using Duff & Phelps 2014 Valuation Handbook data (Unlevered)
Assumes 100% Equity and 0% debt
Data Smoothing with Regression Analysis
Smoothed Premium (RP_{mss}) = Constant + X Coefficients * Log(Relevent Metric)

RP_{inneteversed} = RP_{layered} - W_dW_e"(β_u-β_d)*RP_{menset}
Where β_v = unlevered portfolio beta
β_u = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_v = percentage of equity in capital structure
RP_{layered} = levered realized risk premium

 MV
 Book Equity
 5 Yr Avg. MVIC
 Total Net Income
 5 Yr Avg. Assets
 EBITDA

 (Table C-1)
 (Table C-2)
 (Table C-4)
 (Table C-3)
 (Table C-5)
 (Table C-6)
 19.089% -3.233% 16.046% -2.591% 19.463% 13.763% -3.243% -2.623% 18.027% -2.851% Constant X Coefficient(s) 15.308% -2.736%

				TALE AND THE	(united out			
		MV	Book		5 Yr Avg.	Total	5 Yr Avg.	
Company	Symbol	Equity	Equity	MVIC	Net Income	Assets	EBITDA	Average
1 American States	AWR	9, 14%	9.07%	9.15%	9.43%	9.17%	9.43%	9.23%
2 Aqua America	WTR	7.38%	7.79%	7.29%	8.02%	7.52%	B. 10%	7.68%
3 California Water	CWT	9.26%	8.85%	9.14%	9.49%	8.62%	9.39%	9.13%
4 Connecticut Water	CTWS	10.83%	10.10%	10.62%	10.87%	10.15%	11.35%	10.65%
5 Middlesex	MSEX	11.00%	10.15%	10.87%	10.78%	10.19%	10.96%	10.68%
6 SJW Corp.	SJW	10.24%	9.55%	9.92%	10.28%	9.37%	10.00%	9.89%
Average (unlevered)		9.64%	9.25%	9.50%	9.81%	9.17%	9.87%	9.54%
Utility Source, LLC		NA	14.57%	NA	NMF	15.04%	16.34%	15.32%

Exhibit Rebuttal Schedule D-4.14 Witness: Bourassa

Unlevered Portfilio Beta (from 2014 Duff & Phelps Valuation Handbook - Table C) Exhibit Rebuttal Schedule D-4.15 Witness: Bourassa

				Unleve	red Portfolio	Beta (β _u)		
Company	Symbol	(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average
1 American States	AWR	0.94	0.96	0.95	0.95	0.97	0.95	0.95
2 Aqua America	WTR	0.87	0.89	0.86	0.88	0.83	0.82	0.86
3 California Water	CWT	0.98	0.96	0.95	0.95	0.94	0.96	0.96
4 Connecticut Water	CTWS	0.96	0.98	0.97	0.97	0.99	1.03	0.98
5 Middlesex	MSEX	0.96	1.00	0.98	0.97	0.99	0.99	0.98
6 SJW Corp.	SJW	0.98	0.98	0.98	0.99	0.97	0.95	0.98
Average		0.95	0.96	0.95	0.95	0.95	0.95	0.95
Utility Source, LLC		NA	0.98	NA	1.01	1.05	1.03	1.02

MRP Estimates Using Duff & Phelps 2014 Valuation Handbook data (Relevered) Relevered Realized Risk Premium $RP_{relevered} = RP_{unterered} = W_dW_a^*(\beta_0,\beta_0)^*RP_{mathet}$ Where β_0 = unlevered portfolio beta $\beta_0 = \text{debt beta, assumed to be 0.1}$ $W_d = \text{percentage of debt in capital structure}$ $W_s = \text{percentage of equity in capital structure}$ $RP_{unterered} = \text{unlevered realized risk premium from Table 2}$ $RP_{mathet} = \text{general equity risk premium for the market since 1963}.$

Exhibit Rebuttal Schedule D-4.16 Witness: Bourassa

		MRP _{m+e} (Relevered)							
	-		MV	Book		5 Yr Avg.	Total	5 Yr Avg.	
<u>Company</u> <u>S</u>	vmbol	W.W.	Equity	Equity	MVIC	Net Income	<u>Assets</u>	EBITDA	Average
1 American States	AWR	27.4%	10.27%	10.22%	10.29%	10.57%	10.33%	10.57%	10.37%
2 Aqua America	WTR	35.0%	8.70%	9.15%	8.60%	9.36%	8.77%	9.34%	8.98%
3 California Water	CWT	38.9%	10.94%	10.49%	10.76%	11.11%	10.22%	11.02%	10.76%
	CTWS	48.7%	12.88%	12.20%	12.69%	12.94%	12.27%	13.56%	12.76%
5 Middlesex A	MSEX	40.9%	12.72%	11.95%	12.63%	12.53%	11.97%	12.75%	12.42%
6 SJW Corp.	SJW	61.5%	12.90%	12.20%	12.57%	12.97%	11.99%	12.56%	12.53%
Average MRP (Relevered)		42.06%	11.40%	11.04%	11.26%	11.58%	10.93%	11.63%	11.31%
Utility Source, LLC		0.00%	NA	14.57%	NA	NMF	15.04%	16.34%	15.32%

Equity Risk Premium Adjustment and Other meterics used in Build-up Method

Exhibit Rebuttal Schedule D-4.17 Witness; Bourassa

[1] Estimate of Current Market Risk Premium (RP _{market})	5.00% <<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2013)1	4.90%
[3] Equity Risk Premium Adjustment ([1] - [2])	0.10%
[4] Average MRP (refevered) for publicly traded water companies (from Rebuttal Schedule D-4.16)	11.31%
[5] MRP (relevered) for publicly traded water companies (RP _{mes}) ([3] + [4])	11,41%
[6] Equity Risk Premium Adjustment ([3])	0.10%
[7] Average MRP (relevered) for subject utility company (from Table D-4.16)	15.32%
[8] MRP (relevered) for subject utility company (RP _{m+1}) ([6] + [7])	15.42%
(9) Industry Risk Premium (From Duff & Phelps for SIC 494 Water Supply Industry Exhibit 5-7)	-4.24%
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.96%*[0.7184
[11] Adjusted Industry Risk Premium (R.) ([9] x [10])	-3.05%
[12] Risk Free Rate (R ₄) ²	2.98%
• •	

¹ From Duff & Phelps 2014 Valuation Handbook.
² Yield on 20 Yr U.S. Treasury September 30, 2014 (Federal Reserve)

Cost of Equity (COE) Estimate using Build-up Method

 $E(R_i) = R_i + RP_{m+x} + RP_i + RP_u$

Where:

ne.
E[R_i] = Expected (indicated) rate of return
Rf = Risk-free rate of return. See Rebuttal Schedule D-4.17.
RPm+s = Market risk premium including size premium. See Rebuttal Schedule D-4.16.
RPi = Industry risk premium (adjusted). See Rebuttal Schedule D-4-17.

RP_u = Company-specific risk premium

Sample
Publicly Traded
Water
Utilities

 R_r =
 2.98%
 2.98%
 2.98%

 RP_{ms} =
 See Sched. D-4.16
 RP, =
 -3.05%

 RP_u =
 0.00%
 0.00%

Indicated COE E(R_i) 5 Yr Avg. Total 5 Yr Avg. EBITDA 10.60% 9.37% 11.06% 13.60% 12.78% 12.59% Book MVIC 10.32% 8.63% 10.80% 12.73% 12.66% 12.60% Net Income 10.60% 9.39% 11.15% 12.98% 12.56% 13.00% Assels 10.37% 8.80% 10.25% 12.31% 12.00% 12.03% Average 10.41% 9.02% 10.79% 12.79% 12.46% 12.57% Symbol AWR WTR CWT CTWS MSEX Equity 10.30% 8.73% 10.97% 12.91% 12.76% 12.93% Equity 10.26% 9.18% Company 1 American States 2 Aqua America 3 California Water 4 Connecticut Water 10.52% 12.23% 11.98% 5 Middlesex 6 SJW Corp. 11.61% 11.85% 11.34% 11.63% Average COE estimate Median COE Estimate 11.44% 11.87% 11.07% 11.25% 11.29% 11.70% 10.96% 11.19% 11.67% 11.83% Utility Source, LLC NA 14.60% NA NMF 15.08% 16.37% 15.35%

Exhibit Rebuttal Schedule D-4.18 Witness: Bourassa Utility Source, LLC
Docket No. WS-04235A-13-0331

THOMAS J. BOURASSA REBUTTAL TESTIMONY

October 3, 2014

EXHIBIT TJB-COC-RB1

Utility Source, LLC Size Premium¹

Exhibit TJB-COC-RB1 Witness: Bourassa

					V	Witness: Bourassa
Line						
<u>No.</u>						
1 2						Risk
3				Size		Premium
4			Pote(0)	-	4	_
5			<u>Beta(β)</u>	Premium	<u>iù</u>	Small Water Utilities ⁷
6	Mid-Cap Companies ²		1,19	1.51%		
7	wird-Cap Companies		1.15	1.51 /6		
8	Low-Cap Companies ³		1.30	2.31%		
9	LOW-Out Companies		1.50	2,0170		
10	Micro-Cap Companies	4	1.43	4.36%		
11	whore cap companies	•	1,40	4.50%		
12	Decile 10 ⁵		1.48	6.63%		3.77%
13				0.0070		4.1.7.70
14						
15						
16						Risk
17						Premium
18					<u>for</u>	Small Water Utilities
19						
20	Estimated Risk Premit	um for small water utilitie	s°			0.99%
21						
22						
23 24	10-4-6			- 1/ 1 1		
		f Momingster, Ibbotson S&				
25 26		dudes companies with man cludes companies with man				
27		ncludes companies with ma				on.
28		panies with market capitali				
29		M. Zepp, "Utility Stocks an				
30		noe , 43 (2003), 578-582.	O IN SIZE ENGCE	Revisited, The Qual	leny neview	
31		hted differences between t	he Decile 10 risk	oremium and the inidi	cated risk premis	me
32		flities as shown below. Ex			outed high profile	
33		Market Cap.	Size	Difference		Weighted
34		(Millions) Class	Premium	to Decile 10	Welah!	Size Premium
35	American States	\$ 1,191 Low-Cap	2.31%	4,32%	0.16666667	0.72%
36	2. Aqua America	\$ 4,195 Mid-Cap	1.51%	5.12%	0.166666667	0.85%
37	3. California Water	\$ 1,096 Low-Cap	2.31%	4.32%	0.166666667	0.72%
38	4. Connecticut Water	\$ 359 Micro-Cap	4.36%	2.27%	0.166666667	0.38%
39	5. Middlesex	\$ 317 Micro-Cap	4.36%	2.27%	0.166666667	0.38%
40	6. SJW Corp.	\$ 544 Low-Cap	2.31%	4.32%	0.16666667	0.72%
41		Average	2.86% W	thtd Size Prem. for Smal	# Utilities	3.77%

for the sample water	unities as shown below.	Excludes risk due to t	iliterences in Deta.
	Market Can	Size	Difference

-		ioi tre sample water u	mines as	SHOW	I DEIUW. CX	CIUCES HSK UL	e to uliterences in Deta.		
3	Market Cap.).	Size	Difference		Weighted	
4			<u>(N</u>	tillions)	Class	Premium	to Decile 10	Weight	Size Premium
5	1.	American States	\$	1,191	Low-Cap	2.31%	4.32%	0.166666667	0.72%
3	2.	Aqua America	\$	4,195	Mid-Cap	1.51%	5.12%	0.166666667	0.85%
7	3.	California Water	. \$	1,096	Low-Cap	2.31%	4.32%	0.166666667	0.72%
3	4.	Connecticut Water	\$	359	Micro-Cap	4.36%	2.27%	0.166666667	0.38%
•	5.	Middlesex	\$	317	Micro-Cap	4.36%	2.27%	0.166666667	0.38%
)	6.	SJW Corp.	\$	544	Low-Cap	2.31%	4.32%	0.16666667	0.72%
ı					Average	2.86%	Wghtd Size Prem. for Sma	alf Utilities	3.77%

² Mid-Cap companies includes companies with market capitalization between \$1,912 million and \$7,687 million.

³ Low-Cap companies includes companies with market capitalization between \$514 million and \$1,909 million.

⁴ Micro-Cap companies includes companies with market capitalization less than \$514 million.

⁵ Decile 10 includes companies with market capitalization between \$1.14 million and \$254 million.

⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review* of Economics and Finance, 43 (2003), 578-582.

Computed as the weighted differences between the Decile 10 risk premium and the inidicated risk premiums.

ATTACHMENT 3

1	0. W N 010620	
2	Steve Wene, No. 019630 MOYES SELLERS & HENDRICKS LTD.	
	1850 N. Central Avenue, Suite 1100	
3	Phoenix, Arizona 85004 (602)-604-2189	
4	swene@law-msh.com	
5	Attorneys for Utility Source, L.L.C.	
6		
7	DEEODE THE ADIZONA COR	DOD ATION COMMISSION
8	BEFORE THE ARIZONA COR	AFORATION COMMISSION
9		
10	COMMISSIONERS DOD STUDEN CHAIRMAN	
1.1	BOB STUMP, CHAIRMAN GARY PIERCE	
12	BOB BURNS SUSAN BITTER SMITH	
13	BRENDA BURNS	
14		
15	IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN	DOCKET NO: WS-04235A-13-0331
16	ARIZONA CORPORATION, FOR A	
17	DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND	REBUTTAL TESTIMONY OF LONNIE McCLEVE
18	PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES	OF LONNIE MCCLEVE
19	AND CHARGES FOR UTILITY SERVICE BASED THEREON.	
20		
21		
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25	Response to Certain Staff Positions	p. 2
26	Fire Protection Plant Issues	p. 5
27	Response to Nielsen Issues	p. 6
28		

I.

GENERAL INFORMATION AND POSITIONS

- Q. Please state your name and your role in this matter.
- A. Lonnie McCleve. I am an owner of Utility Source, LLC ("Company"). I oversee the Company. Typically, the day to day operations are handled by the Company's office manager and system manager, but they keep me informed regarding significant issues. The Company's other owner, Gary Bulechek, will sometimes oversee certain projects and he will keep me informed as to those undertakings as well. I have held this position since the Company was granted a CC&N in 2005. I have also developed several properties over time, including Flagstaff Meadows, which is served by the Company.
- Q. What is the purpose of your testimony?
- A. I am commenting on the non-financial issues raised by Staff and the interveners. I will focus on those issues where the Company has a contrary view to those expressed by Staff or an intervener.

II. RESPONSE TO CERTAIN STAFF POSITIONS

- Q. Staff's engineer recommended that the Company finish constructing the block wall around Well 2 and install a functioning gate. Does the Company agree with this recommendation?
- A. The Company understands that it has to have site control of the well and needs to have a fence, wall, or some type of enclosure to keep people away from the well. The Company understands this requirement and agrees to finish the work. However, based on our experience, we know the county may have specific requirements as to what type of structure is built and where it is located. All we ask is that the recommendation be worded so we are required to build a structure that complies with the enclosure rule, but

 leave some flexibility to enable the Company to build a cost-effective structure.

- Q. Staff's engineer recommended that the Company adopt five BMPs selected by Staff. Does the Company agree with this recommendation?
- A. No. The Company understands that the Commission no longer routinely requires BMPs. Our understanding is that BMPs are usually adopted when water loss is high. Here, the Company's water loss is around 5%, which is very good for a small water company. So there is no need for BMPs. Further, if BMPs are required, then the Company should be able to select which ones are most appropriate rather than Staff dictating those to apply.
- Q. Regarding Deep Well 4, Staff recommends that the Company be required to get Commission approval to sell Deep Well 4. Does the Company agree with this recommendation?
- A. The Company has no intention of selling Deep Well 4, so this is not an issue.
- Q. Staff also recommends that the Company cannot require a developer to pay for construction of a new well. Does the Company agree with this recommendation?
- A. No. Neither the Company nor Staff knows what a developer may plan. A developer may want to construct a planned community where the demand is beyond the current capacity of the Company system. In such a case, it might be prudent to have the developer pay for another well.
- Q. Staff's engineer recommends that the Company repair the wastewater treatment plant mixed media filter. Does the Company agree with this recommendation?
- A. The Company accepts this recommendation, provided the costs are reasonable, which should be less than \$10,000. To be clear, the plant meets the effluent standards for producing irrigation water without this equipment being operational.

Q. Discuss Staff's testimony regarding the standpipe that the Company has built.

A. My partner, Gary Bulechek, was the point person on this project. The Company was selling bulk water from a fire hydrant, primarily to contractors and commercial users. Coconino County staff approached the Company and said it would no longer allow the Company to operate in this manner and would need to build a loading station. Put another way, the Company built the new load station to comply with the County rules and staff comments.

During this time, the Company was making approximately \$3,500 a year from bulk water sales through the hydrant. The Company had no intention of making this an expensive building project. But by the time we hired an engineer, followed his advice, and then had to make multiple improvements demanded by the County, we had spent around \$50,000 and the project was still not complete. Gary and I decided it made economic sense to finish the project so that the costs expended could be recovered over time.

As far as revenues, the Company believes it will generate more revenue than the \$3,500 a year gained from sales through the fire hydrant. How much more is anyone's guess. Staff seems to assert that the Company will sell 200,000 gallons every month, which is very improbable especially during the winter. The 200,000-gallon estimate is the maximum that could be served, not a projection of what will be served. Put another way, it is a peak demand estimate that might occur some year; not a monthly estimate that will occur every year.

Q. Staff recommends the Company file a new rate case with a 2015 test year based upon its belief that the standpipe operation could generate \$52,000 a year. Do you agree with Staff's recommendation?

A. No. First, this rate case will still be ongoing in 2015 and we will not have had time to recover our rate case expense by the time we have to file another case. The new rates will not be in effect for a year by the time we have another test year. Adding the cost of another rate case so soon would be a tremendous burden on the customers. If Staff is concerned about the Company over-earning, then it might be prudent to state that the Company needs to file another rate case if Company revenues exceed the revenue requirement by 10%. But to require a new rate case when we do not know the impact of the fill station seems to build additional cost without a factual basis. My understanding is the Commission usually requires a small water company to file for a rate case once every five years, and we are fine with that approach.

III. FIRE PROTECTION PLANT ISSUES

Q. The interveners raised concerns regarding fire protection plant inclusion in rate base and reliability. Please comment on those issues.

A. The Company has 34 fire hydrants. My understanding is that fire hydrants are properly included in rate base. The reliability issues have been resolved. This was confirmed by the local fire chief, who noted that he understood that adequate repairs have been made. See Mark Sachara email dated July 29, 2014 (enclosed in filing by Terry Fallon). In 2011, an electrical issue arose and was repaired in a reasonable time.

Between 2012 and 2013, there were mechanical issues that required repeated repair. A bolt repeatedly broke, even after upgrading the quality of the bolt twice. After the fourth

bolt, which was custom made with dense material, broke the Company had a machinist mill a retention system and that has solved the issue to date. Please note that the dates provided herein are more accurate than what was previously provided in the response to Nielsen's data request 1.6.

IV. RESPONSE TO NIELSEN ISSUES

Q. Intervenor Nielsen argues that Utility Source is not in compliance with Commission Decision 67446. Do you agree?

A. No. Decision 72261 acknowledged that Staff concluded the Company complied with Decision 67446, ADWR, and ADEQ. The Commission adopted Staff's recommendation and found that the Company was in compliance and the performance bond held to ensure performance was released.

Nielson's primary concern is the ownership of land. Right after Decision 72261 was issued, the Company instructed its attorney and engineer to transfer real property rights at issue to the Company. To secure compliance, the Company filed two deeds and two easements transferring rights to the Company. The Company trusted its consultants to perform the task properly. If there are any discrepancies that were not previously resolved and that exist today, the Company will rectify them. The Company and its owners fully intend to have the Company own the production wells that concern Nielson.

One issue that needs to be addressed is the registration of the wells in the ADWR data base. The Company is aware that several of its wells are still registered under other entities and the Company will rectify this issue as soon as practical.

O.

reasons. Please comment on his position.

as a production well for the system.

A. The Company has not requested Deep Well 4 be included in rate base. While Mr. Bulechek is in charge of this project, my understanding is that new source testing was

Intervener Nielsen argues Deep Well 4 should not be in rate base for various

performed on this well around 2005-06 and the water quality is good. This well is currently offline, but it is our intention to begin using it in the near future. The Company is going to file all finalization documents soon because the intent is to start using this well

Q. Intervener Nielson seems to criticize comments you allegedly made concerning water rates and the development of Flagstaff Meadows Unit III and the proposed Loves Travel Center. Please comment.

- A. I am familiar with the expenses necessary to run these utilities. On several occasions, I have stated publicly that unless the community grows with new customers, utility rates could double. As demonstrated by our rate applications, as well as the analysis by Staff and RUCO, my projection has proven accurate. The Company would like more customers to help spread the cost of operating the utilities.
- Q. Intervener Nielsen alleges either the Company or its ownership has withheld information and documents relating to the period when the utilities were operated by the property owners' association. Please comment.
- A. The allegation is false. We turned over the records to the property owners' association years ago. The issues related to the property owners' association operating the utilities and the rate base has already been addressed by the Commission.
- Q. Nielsen also alleges that the Company has a line extension agreement with Empire Builders. Do you have such an agreement?
- A. No. Nielsen is raising concerns about events that occurred approximately ten

years ago. I do not recall that we executed a line extension agreement. Our attorney who would have addressed this issue is retired and the Empire Builders' project went bankrupt. We reviewed our files and did not find an extension agreement with Empire Builders or any entity associated with the development it proposed. On September 12, 2014, the Company responded to Nielsen's second set of data requests by stating the Company does not have such agreements.

- Q. Nielsen alleges the utilities are overbuilt. Do you agree?
- A. No. I would like to point out that Staff's engineer did not believe the systems are overbuilt either.
- Q. Nielsen alleges no hydrologist was consulted when Deep Wells 1 and 2 were constructed. Is that true?
- A. No. When siting Deep Well 3, however, the hydrologist employed different methods, which worked better.
- Q. Comment on Nielsen's statements that the Company did not respond to his data requests relating to peak daily flows in March of 2012.
- A. The Company staff read the meter. We do not know why the flow was higher that month.
- Q. Does this conclude your rebuttal testimony?
- A. Yes.

ORIGINAL



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27 28 Steve Wene, No. 019630 MOYES SELLERS & HENDRICKS LTD.

IN THE MATTER OF THE APPLICATION

DETERMINATION OF THE FAIR VALUE

PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES

OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A

OF ITS UTILITY PLANTS AND

1850 N. Central Avenue, Suite 1100

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Attorneys for Utility Source, L.L.C.

RECEIVED

2014 NOV -7 P 4: 27

AZ CORP COMMISSIGN DOCKET CONTROL



Arizona Corporation Commission DOCKETED

MR

BEFORE THE ARIZONA CORPORATION COMMISSION

NOV - 7 2014

DOCKETED BY

COMMISSIONERS

BOB STUMP, CHAIRMAN

GARY PIERĆE BOB BURNS

SUSAN BITTER SMITH

BRENDA BURNS

DOCKET NO: WS-04235A-13-0331

NOTICE OF FILING REJOINDER TESTIMONY

AND CHARGES FOR UTILITY SERVICE BASED THEREON.

Utility Source, L.L.C. ("Company"), hereby files rejoinder testimonies described

below:

- Rejoinder Testimony of Tom Bourassa regarding Rate Base, Incomes Statement and Rate Design (Attachment 1);
- Rejoinder Testimony of Tom Bourassa regarding Cost of Capital (Attachment 2); and
- Rejoinder Testimony of Lonnie McCleve (Attachment 3).

Steve Wene

1	Original and thirteen (13) copies
2	of the foregoing filed this 7 th day of November, 2014 with:
3	
4	Arizona Corporation Commission 1200 West Washington Street
5	Phoenix, Arizona 85007
6	
7	Copies of the foregoing mailed
8	this 7 th day of November, 2014 to:
9	Wesley Van Cleve
	Legal Division
10	Arizona Corporation Commission
11	1200 West Washington Street
12	Phoenix, Arizona 85007
13	Daniel W. Pozefsky
	Chief Counsel
14	Residential Utility Consumer Office
15	1110 West Washington Street
16	Suite 220
10	Phoenix, Arizona 85007
17	Tota Niches
18	Erik Nielsen 4680 N. Alpine Drive
	P.O. Box 16020
19	Bellemont, Arizona 86015
20	Bellemont, 7 mzona 00013
21	Terry Fallon 4561 Bellemont Springs Drive
22	Bellemont, Arizona 86015
	Donomon, 1 milona 00015
23	
24	Sonnelly Herbert
25	/

ATTACEMENT

1	BEFORE THE ARIZONA CORPORATION COMMISSION
2	
3	BOB STUMP, CHAIRMAN GARY PIERCE
4	BRENDA BURNS SUSAN BITTER SMITH
5	BOB BURNS
6	
7	IN THE MATTER OF THE APPLICATION DOCKET NO: WS-04235A-13-0331
8	OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE
9	DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND
10	PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES
11	AND CHARGES FOR UTILITY SERVICE BASED THEREON.
12	
13	
14	
15	REJOINDER TESTIMONY OF
16	THOMAS J. BOURASSA
17	(RATE BASE, INCOME STATEMENT AND RATE DESIGN)
18	(RATE DASE, INCOME STATEMENT AND RATE DESIGN)
19	November 7, 2014
20	110Veinbei 7, 2014
21	
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23	•
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2	Q.	PLEASE STATE YOUR NAME AND ADDRESS.			
3	Α.	My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive			
4		Phoenix, Arizona 85029.			
5	Q.	ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?			
6	A.	I am testifying on behalf of the applicant, Utility Source, LLC ("USLLC" or the			
7		"Company"). USLLC is seeking changes in its rates and charges for water utility			
8		service in its certificated service area, which area is located in Yavapai County.			
9	Q.	HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL			
10		TESTIMONY IN THE INSTANT CASE?			
11	A.	Yes, I have previously submitted direct and rebuttal testimony in support of the			
12		request for new rates in this docket.			
13	Q.	WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?			
14	A.	To respond to the surrebuttal filings by Staff and RUCO relating to rate base,			
15		income statement and rate design for USLLC. In a second, separate volume of my			
16		rejoinder testimony, I will provide responses to Staff and RUCO on the cost of			
17		capital, the rate of return applied to the fair value rate base, and the determination			
18		of operating income.			
19					
20	n.	SUMMARY OF USLLC'S REJOINDER POSITION.			
21	Q.	WHAT ARE THE REVENUE INCREASES FOR THE WATER AND			
22		WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN			
23		THIS REJOINDER TESTIMONY?			
24	A.	For the water division, the Company proposes a total revenue requirement of			
25		\$432,967, which constitutes an increase in revenue of \$226,783, or 109.99 percent			
26		over adjusted test year revenues. For the wastewater division, the Company			
		1			

INTRODUCTION AND QUALIFICATIONS.

Q. HOW DO THESE COMPARE WITH THE COMPANY'S REBUTTAL FILING?

- A. The total revenue requirement and required rate increase is slightly less for the water division. This is because the Company has adopted RUCO's recommended adjustment to water testing expense which results in about a \$1,100 reduction to expenses. The total revenue requirement and required rate increase is the same for the wastewater division. The Company continues to recommend an 11.0 percent return on equity. Based on a capital structure consisting of 100 percent equity and 0 percent debt, the Company recommends a weighted cost of capital and return on its fair value rate base ("FVRB") of 11.0 percent. I discuss the Company's proposed return on equity, cost of debt, and capital structure in my separate rejoinder cost of capital testimony.
- Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE OF THE PROCEEDING?
- A. For the water division, the proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company Rebuttal	\$432,967	\$226,783	109.99%
Staff	\$412,100	\$206,184	99.87%
RUCO	\$342,275	\$136,091	66.00%
Company Rejoinde	er \$431,858	\$225,674	109.45%

For the wastewater division, the proposed revenue requirements and

		•			C-11
proposed	rate	increases	are	as	ioliows:

	Revenue Requirement	Revenue Incr.	% Increase	
Company Rebuttal	\$328,900	\$209,436	175.31%	
Staff	\$316,668	\$197,204	165.07%	
RUCO	\$279,524	\$160,060	133.98%	
Company Rejoinde	r \$328,900	\$209,436	175.31%	

III. RATE BASE

A. Water Division Rate Base.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS FOR THE WATER DIVISION?

A. Yes, for the water division the rate base proposed by the parties proposing a rate base in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Company Rebuttal	\$1,575,194	\$1,575,194
Staff	\$1,604,879	\$1,604,879
RUCO	\$1,575,194	\$1,575,194
Company Rejoinder	\$1,575,194	\$1,575,194

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE FOR THE WATER DIVISION?

A. Yes. The Company's rejoinder rate base adjustments to the water division's OCRB are detailed on rejoinder schedules B-2, pages 3 through 6. Rejoinder Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rejoinder OCRB. The Company is not proposing any changes or additional adjustments to the water division rate base. The Company's rejoinder adjustments are the same as the Company's rebuttal adjustments.

1		1. Remaining Issues in Dispute.
2		a. <u>Accumulated Depreciation (A/D).</u>
3	Q.	PLEASE DISCUSS THE DISAGREEMENT BETWEEN STAFF AND THE
4		COMPANY REGARDING THE ACCUMULATED DEPRECIATION
5		BALANCE?
6	A.	The Company proposes an A/D balance of \$716,4861 while Staff proposes an A/D
7		balance of \$667,131 ² ; a difference of \$49,355.
8	Q.	DID STAFF EXPLAIN WHY ITS ACCUMULATED DERPECIATION
.9		EXPENSE WAS LOWER?
10	A.	No.3 Since Staff did not explain why its A/D balance was lower, I reviewed the
11		Staff work papers and have found that the \$49,354 difference represents an
12		additional year of depreciation related to Deep Well #4. In other words, Staff
13		removes an additional year of depreciation for Deep Well #4.
14	Q.	DIDN'T THE COMPANY REMOVE ALL ACCUMULATED
15		DEPRECIATION ON DEEP WELL #4 THROUGH THE END OF 2012 IN
16		ITS DIRECT FILING?
17	A.	Yes. ⁴ There is no reason that I can find for the removal of an additional full year
18		of depreciation. Accordingly, The Commission should reject the Staff
19		recommended A/D balance.
20		
21		
22	1	
23		
24		USLLC Rejoinder Water Division Schedule B-2, page 2.
25	² See S	Staff Surrebuttal Water Division Schedule JLK-W3.

 3 See Surrebuttal Testimony of Jorn L. Keller ("Keller Sb.") at 5.

⁴ See USLLC Direct Water Division Schedule B-2, page 4.1.

Accumulated Amortization on Contributions-in-aid of 1 b. Construction (CIAC). 2 3 PLEASE DISCUSS THE DISAGREEMENT BETWEEN STAFF AND THE 0. COMPANY REGARDING THE ACCUMULATED AMORTIZATION 4 5 **BALANCE?** The Company proposes an Accumulated Amortization ("A.A.") balance of 6 Α. 7 \$95,670⁵ while Staff proposes an A/D balance of \$76.001⁶; a difference of 8 \$19,669. As I explained in my rebuttal testimony, the Company's proposed A.A. 9 balance was reconstructed according the typical and customary method used by both Staff and myself in the past.⁷ In the instant case, Staff has inexplicably 10 11 changed its past practice of using the composite depreciation rate for each year for 12 computing amortization and instead uses the prior test year composite depreciation 13 rate. 14 Q. HAS STAFF EXPLAINED WHY IT IS USING AN AMORTIZATION 15 METHOD INCONSISTENT WITH ITS PAST PRACTICES? 16 Α. No. 17 Q. HAS STAFF USED A DIFFERENT METHOD FOR COMPUTING **ACCUMULATED AMORTIZATION** 18 **FOR** THE WASTEWATER 19 **DIVISION?** Yes. Staff accepted the Company's direct proposed A.A. balance for the 20 Α. 21 wastewater division which was based upon the same method the Company used for its water division. So, the method used by Staff for re-computing the A.A. balance 22 23 for the water division is inconsistent with the method used for the wastewater 24

25

⁵ See USLLC Rejoinder Water Division Schedule B-2, page 2.

⁶ See Staff Surrebuttal Water Division Schedule JLK-W6.

⁷ See Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 7.

1		division.								
2	Q.	ARE THERE ANY REMAINING WATER DIVISION RATE BASE ISSUES								
3		BETWEEN THE PARTIES?								
4	Α.	No.								
5		B. Wastewater Division Rate Base.								
6	Q.	WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE								
7		BASE RECOMMENDATIONS FOR THE WATER DIVISION?								
8	A.	Yes, for the water division the rate bases proposed by the parties in the case, the								
9		Company, Staff and RUCO, are as follows:								
10		<u>OCRB</u> <u>FVRB</u>								
11		Company Rebuttal \$825,856 \$825,856								
12		Staff \$825,880 \$825,880								
13		RUCO \$825,856 \$825,856								
14		Company Rejoinder \$825,856 \$825,856								
15	Q.	WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED								
16		ORIGINAL COST RATE BASE FOR THE WASTEWATER DIVISION?								
17	A.	The Company's rejoinder rate base adjustments to the wastewater division's OCRB								
18		are detailed on rejoinder schedules B-2, pages 3 through 6. Rejoinder Schedule B-								
19		2, page 1 and 2, summarize the Company's proposed adjustments and the rejoinder								
20		OCRB. The Company is not proposing any changes or additional adjustments to								
21		the wastewater division rate base. The Company's rejoinder adjustments are the								
22		same as the Company's rebuttal adjustments.								
23		1. Remaining Issues in Dispute.								
24		a. <u>Accumulated Depreciation (A/D).</u>								
25	Q.	PLEASE DISCUSS THE DISAGREEMENT BETWEEN STAFF AND THE								

COMPANY REGARDING THE ACCUMULATED DEPRECIATION

BALANCE?

A. The Company proposes an A/D balance of \$455,0928 while Staff proposes an A/D balance of \$455,0649; a difference of \$28.

O. WHAT IS THE CAUSE OF TH DIFFERENCE?

A. The Company agreed with Staff's reclassification of \$421 from account 390 – Office Furniture and Equipment to account 390.1 – Computers and Software. These two accounts have depreciation rates of 6.67 percent and 20 percent, respectively. However, Staff did not adjust its A/D balance to reflect the change to the account balances. Accordingly, The Commission should reject the Staff recommended A/D balance.

b. Accumulated Amortization of Contributions in Aid of Construction (CIAC).

Q. PLEASE DISCUSS THE DISAGREEMENT BETWEEN STAFF AND THE COMPANY REGARDING THE ACCUMULATED AMORTIZATION BALANCE?

A. The Company proposes an Accumulated Amortization ("A.A.") balance of \$86,715¹¹ while Staff proposes an A/D balance of \$86,711¹²; a difference of \$4. This difference is the result of the change to the amortization rate for 2012 stemming from the reclassification of plant as described above. Staff did not adjust its A.A. balance to reflect the change to plant and the amortization rate. Accordingly, The Commission should reject the Staff recommended A.A. balance.

⁸ See USLLC Rejoinder Wastewater Division Schedule B-2, page 2.

²⁴ See Staff Surrebuttal Wastewater Division Schedule JLK-WW3.

¹⁰ See Bourassa Rb. at 8 and Staff Surrebuttal Wastewater Division Schedule JLK-WW4.

¹¹ See USLLC Rejoinder Schedule B-2, page 2.

¹² See Staff Surrebuttal Schedule JLK-W6.

1	Q.	ARE THERE ANY REMAINING WASTEWATER DIVISION RATE BASE
2		ISSUES BETWEEN THE PARTIES?
3	A.	No.
4		
5	IV.	INCOME STATEMENT.
6		A. Water Division Revenue and Expenses.
7	Q.	WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED
8		ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER
9		DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE
10		ACCEPTED FROM STAFF AND/OR RUCO?
11	A.	The Company rejoinder adjustments for the water division are detailed on
12		Rejoinder Schedule C-2, pages 1-12. The rejoinder income statement with
13		adjustments is summarized on Rejoinder Schedule C-1, page 1-2. The Company
14		is proposing one change to expenses described below. There are no other changes
15		or additional adjustments to the wastewater division revenues and/or expenses.
16		The Company's rejoinder adjustments to revenues and/or expenses other than the
17		one change are the same as the Company's rebuttal adjustments.
18		1. Water Testing Expense
19	Q.	PLEASE DISCUSS THE COMPANY PROPOSED CHANGE TO WATER
20		TESTING EXPENSE.
21	A.	As reflected in rejoinder adjustment number 5, the Company is adopting RUCO's
22		proposed water testing expense of \$374.13 As explained by RUCO, the Company's
23		miscellaneous expense already includes the MAP testing cost totaling \$1,096.14
24		The MAP testing expense plus the \$374 recommendation total \$1,470 which
25	13 See	Surrebuttal Testtimony of Jeffery M. Michlik ("Michlik Sb.") at 6.
26	¹⁴ <i>Id</i> .	

matches the Staff recommendation as set forth in Mr. Thompson's direct testimony (Table C).

2. Remaining Issues In Dispute.

a. Rate Case Expense

- Q. PLEASE DISCUSS THE DIFFERENCES IN RATE CASE EXPENSE BETWEEN THE PARTIES.
- A. All of the parties are in agreement on the total level of rate case expense for the water division of \$50,000. The Company and Staff agree on a 3-year amortization period and a normalized annual expense of \$16,667. RUCO on the other hand excludes rate case expense from operating expenses and proposes a surcharge of \$16,667 based upon a 3-year recovery period. 16
- Q. IS A SURCHARGE RECOVERY APPROACH WARRANTED IN THIS CASE?
- A. No, for at least two reasons. First, the use of a surcharge recovery approach is rarely used. The problem with a surcharge recovery approach is that the Company will incur regulatory expense (compliance filings, etc.) between rate cases which are not reflected in the test year expenses. A normalized expense amount also makes more sense as it treats rate case expense like other expenses. Expenses in the future may be higher (or lower) than the adjusted test year level and the actual earnings which be lower (or higher) than the authorized level. Second, the Company has agreed to file for another rate case and the Company now agrees with Staff that the timing of another rate case should correspond to the amortization period.¹⁷

¹⁵ Bourassa Rb. at 14.

¹⁶ Michlik Sb. at 18.

¹⁷ Keller Sb. at 7.

b. Income Tax Expense

- Q. PLEASE DISCUSS THE DIFFERENCE IN THE PROPOSED INCOME TAXES BETWEEN THE PARTIES.
- A. The Company and Staff propose recovery of income taxes whereas RUCO does not.¹⁸ Based upon current Commission policy, RUCO's position should be rejected.
 - B. Wastewater Division Revenue and Expenses.
- Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WASTEWATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?
- A. The Company rejoinder adjustments for the wastewater division are detailed on Rejoinder Schedule C-2, pages 1-12. The rejoinder income statement with adjustments is summarized on Rejoinder Schedule C-1, page 1-2. The Company is not proposing any changes or additional adjustments to the wastewater division revenues and/or expenses. The Company's rejoinder adjustments to revenues and/or expenses are the same as the Company's rebuttal adjustments.

1. Remaining Issues In Dispute.

a. Rate Case Expense

- Q. PLEASE DISCUSS THE DIFFERENCES IN RATE CASE EXPENSE BETWEEN THE PARTIES.
- A. All of the parties are in agreement on the total level of rate case expense for the water division of \$50,000. The Company and Staff agree on a 3-year amortization period and a normalized annual expense of \$16,667.¹⁹ RUCO on the other hand

¹⁸ See Surrebuttal Testtimony of Jeffery M. Michlik ("Michlik Sb.") at 8.

¹⁹ Bourassa Rb. at 14.

excludes rate case expense from operating expenses and proposes a surcharge of \$16,667 based upon a 3-year recovery period.²⁰ I have previously discussed (at page 9) why a 3-year amortization is appropriate in the instant case and will not repeat that testimony here.

b. <u>Income Tax Expense</u>

Q. PLEASE DISCUSS THE DIFFERENCE IN THE PROPOSED INCOME TAXES BETWEEN THE PARTIES.

A. The Company and Staff propose recovery of income taxes whereas RUCO does not.²¹ Based upon current Commission policy, RUCO's position should be rejected.

V. RATE DESIGN (H SCHEDULES).

A. Water Division.

Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER SERVICE?

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES

18	5/8" x 3/4" Meter	\$ 40.61
19	3/4" Meter	\$ 40.61
20	1" Meter	\$ 100.52
21	1 1/2" Meter	\$ 203.04
22	2" Meter	\$324.86
23	3" Meter	\$649.72
24	4" Meter	\$1,015.19

²⁵ Michlik Sb. at 18.

²¹ See Surrebuttal Testtimony of Jeffery M. Michlik ("Michlik Sb.") at 8.

1	6" Meter	\$2,0	30.38
2	Gallons in minimum		0
3			
4	COMMODITY RATES		
5	5/8"X3/4" –Res. & Com	1 to 4,000	\$ 8.20
6		4,001 to 9,000	\$15.70
7		Over 9,000	\$21.70
8	3/4" – Res. & Com.	1 to 4,000	\$ 8.20
9		4,001 to 9,000	\$15.70
10		Over 9,000	\$21.70
11	1" Meter – Res. & Com.	1 to 27,000	\$15.70
12		Over 27,000	\$21.70
13	1 ½" Meter – Res. & Com.	1 to 57,000	\$15.70
14		Over 57,000	\$21.70
15	2" Meter- Res. & Com.	1 to 94,000	\$15.25
16		Over 94,000	\$21.70
17	3" Meter- Res. & Com.	1 to 195,000	\$15.25
18		Over 195,000	\$21.70
19	4" Meter- Res. & Com.	1 to 309,000	\$15.70
20		Over 309,000	\$21.70
21	6" Meter- Res. & Com.	1 to 615,000	\$15.25
22		Over 615,000	\$21.70
23	Irrigation Meters	All gallons	\$15.70
24	Standpipe/Bulk Water	All gallons	\$21.70
25	Construction Meters	All gallons	\$21.70
26			

Q. WHAT WILL BE THE 5/8X3/4 INCH RESIDENTIAL CUSTOMER AVERAGE MONTHLY BILL UNDER THE NEW RATES?

- A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 3/4 inch residential customer using an average 4,123 gallons is \$75.33 a \$36.76 increase over the present monthly bill or a 95.27 percent increase.
- Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE REBUTTAL FILING?
- A. No.

A.

- Q. PLEASE COMMENT ON THE PROPOSED WATER RATE DESIGN OF STAFF.
 - The Company continues to be concerned with the Staff rate design. The Staff rate design will lead to greater amounts of revenue erosion when conservation occurs as compared to the Company's rate design. One reason for this higher revenue instability is that a greater portion of the revenue requirement is recovered via the commodity rates under the Staff rate design than the Company rate design. Under the Staff's design less than 37 percent of the revenue requirement is recovered from the monthly minimums whereas under the Company's rate design about 40 percent of the revenues are recovered from the monthly minimums. Another reason for the greater revenue stability is that under the Staff rate design more revenues are recovered from the higher commodity rates. About 47 percent of the revenue requirement is recovered from the two highest commodity rates under the Staff rate design while about 38 percent of the revenue requirement is recovered from the two highest commodity rates. When conservation occurs, the commodity revenues will decrease to a greater extent under the Staff rate design as compared to the Company rate design.

1	Q.	DO YOU HAVE SIMILAR REVENUE STABILITY CONCERNS WITH										
2		RUCO'S PROPOSED RATE DESIGN?										
3	A.	Yes, RUCO's rate design recovers about 36 percent of revenues from the monthly										
4		minimums, which is significantly lower than the Company's recovery at about 40										
5		percent. Further, like the Staff rate design, a greater portion of the revenue										
6		requirement is recovered from the highest cost commodity rates. RUCO's rate										
7		design recovers about 40 percent of revenues from the two highest commodity										
8		rates.										
9		1. Other Tariff Changes.										
10	Q.	IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND										
11		STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE										
12		INSTALLATION CHARGES?										
13	A.	No, the Company and Staff are in agreement.										
14	Q.	IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND										
15		STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS										
16		CHARGES?										
17	A.	No.										
18		B. <u>Wastewater Division.</u>										
19	Q.	WHAT ARE THE COMPANY'S PROPOSED RATES FOR										
20		WASTEWATER SERVICE?										
21	A.	The Company's proposed rates are:										
22		MONTHLY CHARGE										
23		5/8" x 3/4" Meter \$ 53.00										
24		3/4" Meter \$ 53.00										
25		1" Meter \$132.50										
26		1 1/2" Meter \$265.00										

1		2" Meter	\$424.00
2		3" Meter	\$848.00
3		4" Meter	\$1,325.00
4		6" Meter	\$2,650.00
5			
6		Rate per 1,000 gallons of water use:	
7		Residential	\$ 5.31
8		Car washes, laundromats, commercial, manufacturing	\$ 5.20
9		Hotels and motels	\$ 6.97
10		Restaurants	\$ 8.61
11		Industrial Laundries	\$ 7.63
12		Waste Haulers	\$155.79
13		Restaurant Grease	\$136.32
14		Treatment Plant Sludge	\$155.79
15		Mud Slump Waste	\$486.85
16			
17	Q.	WHAT WILL BE THE 3/4 INCH RESIDENTIAL CUST	TOMER AVERAGE
18		MONTHLY BILL UNDER THE NEW RATES?	;
19	A.	As shown on Schedule H-2, page 1, the average monthly bill	under proposed rates
20		for a 3/4 inch residential customer using an average 4,123	gallons is \$74.91 - a
21		\$50.83 increase over the present monthly bill or a 211.13% inc	crease.
22	Q.	HAVE YOU MADE ANY CHANGES TO THE RATE DE	SIGN?
23	A.	No.	
24	Q.	PLEASE COMMENT ON THE PROPOSED WAS	TEWATER RATE
25		DESIGN OF STAFF AND RUCO.	į
26			

A.

Staff continues to propose a wastewater rate design that does not include a usage charge for residential customers. The Company disagrees with the Staff rate design because it does not distinguish between those customers who place more demands on the wastewater system because they use more water and/or because their wastewater is more costly to treat.

RUCO continues to propose a wastewater rate design that does not include any monthly minimums. All of the wastewater revenues are recovered via usage charges. The Company disagrees with the RUCO rate design because it leads to higher revenue instability and can lead to wide fluctuations in monthly revenues (seasonality).

The Company also disagrees with the proposal to phase-in rates because the need for the rates as proposed has been established. Further, the Company needs the revenue at this time and delay will have adverse impacts on the Company.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

Rejoinder Schedules

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Computation of Increase in Gross Revenue Requirements As Adjusted

Exhibit Rejoinder Schedule A-1 Page 1 Witness: Bourassa

Line									
No.									
1	Fair Value F	Rate Base					\$	1,575,194	
2									
3	Adjusted Op	perating Income						(5,009)	
4									
5	Current Rat	e of Return						-0.32%	
6									
7	Required Op	perating Income					\$	173,271	
8									
9	Required Ra	ate of Return						11.00%	
10									
11	Operating In	come Deficiency					\$	178,280	
12									
13	Gross Reve	nue Conversion Factor						1.2658	
14									
15		Gross Revenue							
16	Requireme					\$	225,674		
17									
18		st Year Revenues					\$	206,184	
19		Gross Revenue Revenue Requirement					\$	225,674	
20		evenue Requirement					\$	431,858	
21	% Increase							109.45%	
22	. .					_			
23	Customer			Present		Proposed		Dollar	Percent
24	Classification		_	Rates	_	Rates		<u>Increase</u>	<u>Increase</u>
25	3/4 Inch	Residential	\$	159,301	\$	326,338	\$	167,038	104.86%
26	3/4 Inch	Commercial		322		810		489	152.01%
27	2 Inch	Commercial		38,120		89,670		51,550	135.23%
28	2 Inch	Irrigation		1,776		3,898		2,122	119.50%
29	D. II (0 4-	est e e							
30	Bulk/Constru	iction		3,482		7,323		3,841	110.29%
31	D								
32 33	Revenue An	nualization	_	328	_	632		304	92.85%
33 34	Subtotal		\$	203,328	\$	428,672	\$	225,343	110.83%
35	Other Water	Davianus		2 444		0.444			
36				3,441		3,441		-	0.00%
36 37	Reconciling / Rounding	Amount		(585)		(255)		330	-56.41%
38	•	er Revenues	\$	206,184	\$	431,858	ė.	225 674	0.00%
39	iotai oi Wat	ei i/eveiilles	<u> </u>	200,184	2	431,658	\$	225,674	109.45%
39									

40

Line

SUPPORTING SCHEDULES: B-1 41

42 43

C-1 C-3

44 45 H-1

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Summary of Rate Base

Exhibit Rejoinder Schedule B-1 Page 1 Witness: Bourassa

Line No.		riginal Cost Rate base	air Value Rate Base
1 2	Gross Utility Plant in Service	\$ 2,496,640	\$ 2,496,640
3	Less: Accumulated Depreciation	 716,486	716,486
4 5	Net Utility Plant in Service	\$ 1,780,154	\$ 1,780,154
6 7	Lane		
8	Less: Advances in Aid of Construction		
9	Advances in Aid of Construction	-	-
10	Contributions in Aid of Construction	294,745	294,745
11			
12	Accumulated Amortization of CIAC	(95,670)	(95,670)
13 14	Customer Meter Deposits	E 005	5.005
15	Deferred Income Taxes & Credits	5,885	5,885
16	Deletted income Taxes & Credits	-	-
17			
18			•
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	-	-
23	Materials and Supplies	-	-
24	Allowance for Working Capital	-	-
25			
26			
27	T. 1. D. 1. D.		
28	Total Rate Base	\$ 1,575,194	\$ 1,575,194
29			
30			
31			

SUPPORTING SCHEDULES:

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments

Exhibit Rejoinder Schedule B-2 Page 1 Witness: Bourassa

Line No.	Gross Utility		Adjusted at end of Test Year	Proforma <u>Adjustment</u>	Rejoinder Adjusted at end of <u>Test Year</u>
2	Plant in Service	\$	2,496,640	-	\$ 2,496,640
3 4	Less:				
5	Accumulated				
6	Depreciation		726,406	(0.010)	740 400
7			720,400	(9,919)	716,486
8					
9	Net Utility Plant				
10	in Service	\$	1,770,234		\$ 1,780,154
11		-	.,		Ψ 1,100,134
12	Less:				
13	Advances in Aid of				
14	Construction		-	-	
15	.				•
16	Contributions in Aid of				
17 18	Construction - Gross		294,745	-	294,745
19	Accumulated Amortization of CIAC		(00.000)		
20	Accumulated Amortization of CIAC		(96,938)	1,267	(95,670)
21	Customer Meter Deposits		E 00E	•	
22	Accumulated Deferred Income Tax		5,885	0	5,885
23	Tiodamatad Botoned mobile Tax		•	-	-
24					•
25					•
26	Plus:				
27	Unamortized Finance				
28	Charges		-	-	
29	Prepayments		-	-	-
30	Materials and Supplies		-	-	-
31 32	Working capital		-	-	
33					-
34	Total	\$	1 ECC E42		
35	. 5.4.	<u> </u>	1,566,542		\$ 1,575,194
36					
37					
38					
39					
40					
41					
42					
43					
44	CURRORTING CO.				
45 46	SUPPORTING SCHEDULES:			RECA	P SCHEDULES:
46 47	B-2, pages 2 E-1			B-1	· · · · · · · · · · · · · · · · · · ·
48	L-1				
40					

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments

Exhibit Rejoinder Schedule B-2 Page 2 Witness: Bourassa

															A AIR 182	s. Dourassa
			Adjusted		1		_ <u>-Pr</u>	ofon	ma Adjustm 3	ent:						Rejoinder
			at end		-		•		¥		4 Customer	1	<u>5</u> ntentions	alle		Adjusted at end
Line			of		Plant-in-	A	ccumulated				Security		Left	,		of
<u>No.</u>	Gross Utility		Test Year		Service	Ð	epreciation		CIAC		Deposits		Blank			Test Year
2	Plant in Service		0.400.040													
3	Figure 11 Service	\$	2,496,640		-										\$	2,496,640
4	Less:															
5	Accumulated															
6	Depreciation		726,406				(9,919)									
7							(=,0.0)									716,486
8		_														
9	Net Utility Plant															
10	in Service	\$	1,770,234	\$	-	\$	9,919	\$		\$		\$		-	\$	1,780,154
11 12	Less:														•	1,700,104
13	Advances in Aid of															
14	Construction															
15	Caristiación		•													-
16	Contributions in Aid of															
17	Construction (CIAC)		294,745													
18	•		20 1,1 10													294,745
19	Accumulated Amort of CIAC		(96,938)						1.267							
20			(,,						1,201							(95,670)
21	Customer Meter Deposits		5,885													5.885
22	Accumulated Deferred Income Taxes		-													3,663
23 24												_				•
25	Plus:											-				
26	Unamortized Finance															
27	Charges															
28	Prepayments		-													-
29	Materials and Supplies															-
30	Allowance for Cash Working Capital								_							-
31									•							-
32	Total	\$	1,566,542	\$	-	\$	9,919	\$	(1,267)	\$		\$			\$	1,575,194
33		_		_					(1,44)	.T		<u> </u>				1,979,194

SUPPORTING SCHEDULES: B-2, pages 3-5 E-1

RECAP SCHEDULES: B-1

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 1

Exhibit Rejoinder Schedule B-2 Page 3 Witness: Bouressa

Line No. 1 Adjustments 1 A B C D 2 D 3 Adjustments Intentionally Intenti	E Rejoinder ally Intentionally Adjusted Left Original Blank Cost 210,000 72,997 - 1,353,539 - 89,125 156,711 5,487
Adjusted Adjustments Intentionally Intention	Rejoinder Adjusted Left Original Blank Cost 210,000 72,997 1,353,539 89,125 158,711
Adjusted Adjustments Intentionally Intentionally Infantionally Infantion	Rejoinder Adjusted Left Original Blank Cost 210,000 72,997 1,353,539 89,125 158,711
Adjusted Adjustments Intentionally Intention	Illy Intentionally Adjusted Left Original Blank Cost 210,000 72,997 1,353,539 89,125 158,711
Acct. No. Description Criginal to Reconstruction Such Consum Cost Reconstruction	Left Original Blank Cost 210,000 72,997 1,353,539 - 89,125 158,711
6 301 Organization Cost	Biank Cost
7 302 Franchise Cost 8 303 Land and Land Rights 210,000 - 9 304 Structures and Improvements 72,997 - 10 305 Collecting and Impounding Res. 11 306 Lake River and Other Intakes 12 307 Wells and Springs 1,353,539 - 13 308 Internation Callendes and Tunnels 14 309 Supply Mains	210,000 72,997 - 1,353,539 - 89,125 158,711
8 303 Land and Land Rights 210,000 - 9 304 Structures and Improvements 72,997 - 10 305 Collecting and Improvements 11 306 Lake River and Other Intakes 12 307 Wells and Springs 1,353,539 Infiltration Galleries and Tunnels 13 308 Supply Mains	72,997 - - 1,353,539 - - 89,125 158,711
9 304 Structures and Improvements 72,997 10 305 Collecting and Improvements 72,997 11 306 Lake River and Other Intakes 12 307 Wells and Springs 1,353,539 Intilitration Galleries and Tunnels 13 308 Intilitration Galleries and Tunnels 14 309 Supply Mains	72,997 - - 1,353,539 - - 89,125 158,711
10 305 Collecting and Impounding Res.	- 1,353,539 - - 89,125 158,711
11 306 Lake River and Other Intakes 12 307 Wells and Springs 1,353,539 13 308 Infiltration Gelteries and Tunnels 14 309 Supply Mains	- 1,353,539 - - 89,125 158,711
12 307 Wells and Springs 1,353,539	89,125 158,711
13 308 Infiltration Galleries and Tunnels 14 309 Supply Mains	89,125 159,711
14 309 Supply Mains	158,711
	158,711
	158,711
	5,487
10 2004	
10 32U.1 Water Treatment Plant	•
	•
20 330 Dist. Reservoirs & Standpipe 321,452 21 330.1 Storage tanks	321,452
22 330.2 Pressure Tanks	
23 331 Trans. and Dist Mains 161,832	
24 333 Services 86,250 -	161,632
25 334 Melars	86,250
26 335 Hydrants 34,500 -	•
27 336 Backflow Prevention Devices	34,500
28 339 Other Plant and Misc. Equip.	•
29 340 Office Furniture and Fixtures 2,947	
30 340.1 Computers and Software	2,947
31 341 Transportation Equipment	•
32 342 Stores Equipment	•
33 343 Tools and Work Equipment -	•
34 344 Laboratory Equipment	•
35 345 Power Operated Equipment	•
36 346 Communications Equipment	•
37 347 Miscellaneous Equipment -	•
38 348 Other Tangible Plant	•
39 Plant Held for Future Use	•
40 TOTALS \$ 2,496,640 \$ - \$ - \$ - \$	- \$ 2,496,640
41	2,480,040
42 Plant-in-Service per Books	\$ 2,496,640
43	4 2,750,070
44 Increase (decrease) in Plant-in-Service	s .
45	
46 Adjustment to Plant-in-Service	s .
47	
48 SUPPORTING SCHEDULES	
49 B-2, pages 3.1 50	
90	

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 1 - A

Exhibit Rejoinder Schedule B-Page 3.1 Witness: Bourassa

Line No.							
1	Recond	ciliation to Reconstructed Plant-in-Sen	rice				
2							
3			Recorded	Removed	Adjusted	Plant	
4	Acct.		Orginal	Deep Well #4	Original	Per	
5	No.	Description	Cost	Costs	Cost	Reconstruction	Difference
6	301	Organization Cost					-
7	302	Franchise Cost	-		_	-	-
8	303	Land and Land Rights	210,000		210,000	210,000	
9	304	Structures and Improvements	81,748	(8,751)	72,997	72,997	
10	305	Collecting and Impounding Res.	-	• • •		•	_
11	306	Lake River and Other Intakes	-		_	-	
12	307	Wells and Springs	2,831,962	(1,478,423)	1,353,539	1.353,539	
13	308	Infiltration Galleries and Tunnels	-				
14	309	Supply Mains					_
15	310	Power Generation Equipment	89,125	(1,725)	87,400	87,400	
16	311	Electric Pumping Equipment	158,711	• • •	158,711	158,711	-
17	320	Water Treatmen t Equipment	5,487		5,487	5,487	
18	320.1	Water Treatment Plant			-		
19	320.2	Chemical Solution Feeders			-	-	
20	330	Dist. Reservoirs & Standpipe	321,452		321,452	321,452	
21	330.1	Storage tanks	-		•	•	-
22	330.2	Pressure Tanks	•			•	
23	331	Trans. and Dist. Mains	161,632		161,632	161,632	
24	333	Services	86,250		86,250	86,250	
25	334	Meters	-				
26	335	Hydrants	34,500		34,500	34,500	-
27	336	Backflow Prevention Devices	•		•		
28	339	Other Plant and Misc. Equip.	•		-	-	-
29	340	Office Furniture and Fixtures	4,672		4,672	4,672	-
30	340.1	Computers and Software	-		-	-	-
31	341	Transportation Equipment	•		-	-	-
32	342	Stores Equipment	-		-	•	-
33	343	Tools and Work Equipment	-			•	
34	344	Laboratory Equipment	-		-		-
35	345	Power Operated Equipment	-		-	•	-
36	346	Communications Equipment	•		-	-	-
37	347	Miscellaneous Equipment	•		-	•	-
38	348	Other Tangible Plant	•		-	-	-
39		Plant Held for Future Use					
40		TOTALS	\$ 3,985,539	\$ (1,488,899) \$	2,496,640	\$ 2,496,640	\$ -

41 42 43 <u>SUPPORTING SCHEDULE</u> 44 B-2, pages 3.2 - 3.8 45

				Per Decisi	on 70140					2006				
	NARUC		Allowed		Accum.	Plant		Adjusted	Plant	Adjusted				
Line	Account		Deprec.	Plent pl	Deprec. At	Additions	Plant	Plant	Retirements	Plant	Salvege	Deprecistion	Plant	Accum.
No.	No.	Description	Rate	12/31/2005	12/31/2005	(Per Books)	Adjustments	Additions	(Per Books)	Retirements	A/D Only	(Calculated)	Balance	Depres.
1	301	Organization Cost	0.00%	-				_						
2	302	Franchise Cost	0.00%	-				-				-	:	
3	303	Land and Land Rights	0.00%	210,000	-					_			210.000	
4	304	Structures & Improvements	3.33%	72,997	3,648			-				2,431	72,997	6,
5	305	Collecting & Impounding Reservoirs	2.50%	-						_		2,431	12.897	9,
6	306	Lake, River, Canal Inteles	2.50%									•	•	
7	307	Wells & Springs	3.33%	2,071,821	103,487					-		68,992	2,071,821	
8	308	Infiltration Galleries	6.67%									06,992		172,
9	300	Raw Water Supply Mains	2.00%		- 1							•	-	
10	310	Power Generation Equipment	5.00%	87,400	6,555							4.370		
11	311	Pumping Equipment	12.50%	158,711	29,758							19,639	87,400 158,711	10,6 49,5
12	320	Water Treatment Equipment	3.33%	5,487	274							183		
13	320.1	Water Treatment Plants	3.33%									183	5,487	
14	320.2	Solution Chemical Feeders	20.00%		i								•	
15	330	Distribution Reservoirs & Standpipes	2.22%	321,452	10,704							7,138		
16	330.1	Storage Tanks	2.22%										321,452	17,0
17	330.2	Pressure Tanks	5.00%									-	•	
18	331	Transmission & Distribution Mains	2.00%	147,200	4,416					-		2.844		
19	333	Services	3.33%	86.250	4,308					-		2,844	147,200	7,
20	334	Motors	8.33%	•						·		-,	86,250	7,
21	335	Hydrants	2.00%	34,500	1,036							690	•	
72	336	Backflow Prevention Devices	6.67%									090	34,500	1,7
23	339	Other Plant & Misc Equipment	6.67%		- 1			_				•	-	
24	340	Office Furniture & Equipment	6.67%		- 1							•	-	
25	340.1	Computers & Softwere	20.00%		1							•	•	
26	341	Transportation Equipment	20.00%		- 1			_				•	•	
27	342	Stores Equipment	4.00%		. [•	-	
28	343	Tools, Shop & Gerage Equipment	5.00%	-	- 1			_		•		•	-	•
9		Laboratory Equipment	10.00%		. !					•		•	-	-
0	345 (Power Operated Equipment	5.00%		- I					-		-	-	
1	346 (Communication Equipment	10.00%	-						•		-		
2	347	Miscelleneous Equipment	10.00%		. 1			:		•		•	-	
13	348 (Other Tangible Plant	10.00%		. 1					•		•	-	
4		Plant Held for Future Use	1		- 1			:		•		-	•	
15					- 1			•		•		•	•	-
6	1	TOTALS	- I	3,195,818	164,185							109,456	3,195,818	273.64

								2007				
	NARUC		Allowed	Plent		Adjusted	Plant	Adjusted				
Line	Account		Deprec.	Additions	Plent	Plent	Retirements	Plant	Salvege	Depreciation	Plant	Acoum.
No.	No.	Description	Rate	(Per Books)	<u>Adiustments</u>	Additions	(Per Books)	<u>Retirements</u>	A/D Only	(Catcudated)	Balance	Deprec.
1	301	Organization Cost	0.00%			_						_
2	302	Franchise Cost	0.00%					_			_	
3	303	Land and Land Rights	0.00%					-			210,000	
4	304	Structures & Improvements	3.33%					-		2,431	72,997	8.506
5	306	Collecting & Impounding Reservoirs	2.50%			-						
6	306	Lake, River, Canal Intakes	2.50%							_		
7	307	Wells & Springs	3.33%							68,992	2,071,821	241,471
8	308	Infiltration Galleries	6.67%									
9	309	Raw Water Supply Mains	2,00%									
10	310	Power Generation Equipment	5,00%							4,370	87.400	15,295
11	311	Pumping Equipment	12 50%							19.839	158,711	69.436
12	320	Water Treatment Equipment	3.33%							183	5,487	640
13	320 1	Water Treatment Plants	3.33%								-, -	-
14	320.2	Solution Chemical Feeders	20.00%									
15	330	Distribution Reservoirs & Standpipes	2.22%					-		7,136	321.452	24,977
16	330.1	Storage Tanks	2,22%									
17	330.2	Pressure Tanks	5,00%			-						-
18	331	Transmission & Distribution Mains	2.00%					_		2.944	147.200	10,304
18	333	Services	3,33%							2.872	86,250	10,052
20	334	Meters	6.33%									
21	335	Hydrants	2.00%							690	34,500	2,415
22	336	Backtow Prevention Devices	6.87%								41,000	
23	339	Other Plant & Misc Equipment	6.67%			_				_		
24		Office Furniture & Equipment	6,67%							-		
25	340.1	Computers & Software	20.00%					-		_	_	
26	341	Transportation Equipment	20.00%					_		_		
27	342	Stores Equipment	4,00%							_		:
28		Tools. Shop & Gerege Equipment	5.00%			•		•		-	•	
29		Laboratory Equipment	10.00%			•		•		•	•	•
30		Power Operated Equipment	5.00%			-		•	-	•	•	•
31	346	Communication Equipment	10.00%			•		-			•	•
32		Miscellaneous Equipment	10.00%			-		•		:	Ţ.	•
33		Other Tangible Plant	10.00%			•		-		•	•	•
34		Plant Held for Future Use						-		•	•	•
35						•		-		•	•	-
36		TOTALS								109,456	3,185,818	383.097

	NARUC							2008				
Line	Account		Allowed	Piuni		Adjusted	Plant	Adjusted				
No.	No.	Description	Deprec.	Additions	Plant	Plent	Retirements	Plant	Salvage	Depreciation	Plant	Accum
	1104	Descriptor:	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Retirements	AID Only	(Calculated)	Balance	Depres
1	301	Organization Cost	0.00%									
2	302	Franchise Cost	0.00%					•		-	•	
3	303	Land and Land Rights	0.00%					•		•	•	
•	304	Structures & Improvements	3,33%	6.251		6,251		•			210,000	
5	305	Collecting & Impounding Reservoirs	2.50%			0,20.		•		2,536	79,248	11,
6	306	Lake, River, Canal Intokes	2.50%			_		-		•	•	
7	307	Wells & Springs	3.33%					•				
8	308	Infiltration Galleries	6.67%					-		68,992	2,071,821	310,
9	309	Raw Water Supply Mains	2.00%					•		•		
10	310	Power Generation Equipment	5.00%	1,725		1,725		•			•	
1 1	311	Pumping Equipment	12,50%	,		*,,,,,		•		4,413	89,125	19,
12	320	Water Treatment Equipment	3,33%					•		19,639	158,711	89,2
13	320.1	Water Treatment Plants	3.33%					-		183	5,487	
4	320.2	Solution Chemical Feeders	20.00%			-		•		•	•	
5	330	Distribution Reservoirs & Standpipes	2.22%					•		•	•	
6	330.1	Storage Tenks	2.22%			-		-		7,136	321,452	32,1
7	330.2	Pressure Tanks	5.00%					-		-	-	
6	331	Transmission & Distribution Mains	2.00%			-		•		•	-	
9	333	Services	3,33%			-		•		2,944	147,200	13,2
•	334	Maters	8,33%					•		2,872	86,250	12,5
1	335	Hydranis	2.00%					-		-	-	
2	336	Backflow Prevention Devices	6.67%					•		690	34,500	3,1
3	339	Other Plant & Misc Equipment	6.67%					•		•	-	
4	340	Office Furniture & Equipment	6.67%	2,552		2,562		•		•	-	-
5	340.1	Computers & Softwere	20.00%			2,502		•		85	2,552	
ì	341	Transportation Equipment	20.00%			- 1		•		•	-	-
7	342	Stores Equipment	4.00%					•		•	-	-
3	343	Tools, Shop & Garage Equipment	5,00%					•		•	•	-
1		aboratory Equipment	10.00%			-		•			-	-
	345 (Power Operated Equipment	5.00%					•		-	-	
		Communication Equipment	10.00%					•		•	-	
		Viscellaneous Equipment	10.00%			•		-		•	-	
	348 (Other Tangible Plant	10.00%			•		-		•		
		Plant Held for Future Use				-		-		•	•	
								*		-		
		TOTALS		10,528		10 528				109.689	3,206,346	

Utility Source, LLC - Water Division Plant Additions and Refrements

Rejoinder Schedule B-2 Page 3.5

	NARUC		Allowed	Plant				2	000				
Line No.	Account No.	<u>Description</u> Organization Cost	Deprec. Rate	Additions (Per Books)	Plant	Adjusted Ptent Additions	Plent Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Betimments	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Acoun
2	302		0.00%										
3	303	Franchise Cost	0.00%										
4	304	Land and Land Rights	0.00%						•				
5	305	Structures & Improvements	3 33%						-			210,000	
6		Collecting & Impounding Reservoirs	2 50%								2,639	79,248	13.6
,		Lake, River, Canel intakes	2.50%						•				,
é		Wells & Springs	3.33%	753,141		753,141							
-		Infiltration Galleries	6.67%			120,141					81,531	2,824,962	391.8
9	309	Raw Water Supply Mains	2 00%			•			-				
10	310	Power Generation Equipment	5.00%			•							
11		Pumping Equipment	12.50%			•					4,466	89,125	24.1
12	320	Water Treatment Equipment	3 33%			-					19,839	158,711	109.1
13	320.1	Weter Treatment Plants	3.33%								183	5.487	1.0
14	320.2	Solution Chemical Feeders	20.00%			•						-	1.0
15	330	Distribution Reservoirs & Standpipes	2.22%			•							
16	330.1	Storage Tanks	2.22%			•					7,136	321,452	39,24
17	330.2	Pressure Tenks	5.00%			•						OE 7.452	30,24
18		Transmission & Distribution Mains	2.00%			•							:
19		Services	3.33%			•					2,944	147.200	16.19
20		Meters	8.33%			•					2,672	88,250	15,79
11		Hydrants	2.00%			•						00,230	
22	336 (Backflow Prevention Devices	6.67%			•			-		690	34,600	
3	339 (Other Plant & Misc Equipment	6.67%			-						37,000	3.79
4	340 (Office Furniture & Equipment	6.67%			-							•
	340.1	omputers & Software	20.00%			•					170	2,562	-
6	341 T	ransportation Equipment	20.00%			•					-	2,302	25
7	342 S	itores Equipment	4.00%								_	•	
8	343 T	ools, Shop & Gerage Equipment	5.00%			-							
9	344 L	sborstory Equipment	10.00%			-						•	-
D		ower Operated Equipment	5.00%			-					•	•	•
	346 C	ommunication Equipment	10.00%			-					•	•	
?	347 M	scelleneous Equipment				-					•		•
3		ther Tangible Plant	10.00%			-					-		-
		ant Heid for Future Use	10.00%								•	•	•
		- Comment of the comm	- 1						-		•	•	-
	10	DYALS	<u> </u>						-		-		
	-			753,141	. 7	53,141			· ·		122,461		

								20	110				
	NARUC		Allowed	Plant		Adjusted	Plant		Adjusted				
Line	Account		Deprec.	Additions	Plant	Plant	Retirements	Retirement	Plant	Salvege	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Affusiments	Retirements	ATD Only	(Calculated)	Salance	Degree.
1	301	Organization Cost	0.00%									_	
2	302	Franchise Cost	0.00%			-					-		
3	303	Land and Land Rights	0.00%			-					-	210,000	
4	304	Structures & Improvements	3.33%								2.839	78,248	16,33
5	305	Collecting & Impounding Reservoirs	2.50%										-
6	306	Lake, River, Canal Intakes	2.50%						_		-		
7	307	Wells & Springs	3.33%			-					94,071	2,624,962	486,06
a	308	Infiltration Galleries	6.67%			-							
9	309	Rew Water Supply Mains	2.00%								_		
10	310	Power Generation Equipment	5.00%			-					4,456	89,125	28,62
11	311	Pumping Equipment	12.50%								19,839	158,711	128,95
12	320	Weter Treetment Equipment	3.33%			-					183	5.487	1,18
13	320.1	Water Treatment Plants	3.33%			-						-,,	
14	320.2	Solution Chemical Feeders	20.00%								_		
15	330	Distribution Reservoirs & Standpipes	2.22%			_					7,136	321,452	46,38
16	330.1	Storage Tenks	2.22%						_		1,100	44,446	40,00
17	330.2	Pressure Tanks	5,00%			_							
18	331	Transmission & Distribution Mains	2,00%								2,944	147,200	19.13
19	333	Services	3,33%								2,872	86.250	18,66
20	334	Meters	8.33%			-					-,0.2	50,250	.0,00
21	335	Hydrants	2.00%								690	34,500	4,48
22	336	Backflow Prevention Devices	6.67%								•	54,500	7,40
23	339	Other Plant & Misc Equipment	8.67%			_					_		:
24	340	Office Furniture & Equipment	6,67%								170	2,562	42
25		Computers & Softwere	20.00%									2,302	
26	341	Transportation Equipment	20.00%										
27	342	Stores Equipment	4.00%										
28	343	Tools, Shop & Garage Equipment	5.00%										
29	344	Laboratory Equipment	10.00%										
30	345	Power Operated Equipment	5 00%										- :
31	346	Communication Equipment	10.00%									-	•
32		Miscellaneous Equipment	10.00%										
33		Other Tangible Plant	10.00%										
34		Plant Held for Future Use									-		
35			1								•	-	•
36		TOTALS	t	· · · · ·							135,001	3,959,487	750,24

								20	111				
	NARUÇ		Allowed	Plant	_	Adjusted	Plant		Adjusted				
Line	Account		Deprec.	Additions	Plant	Plant	Retrements	Retirement	Plant	Sulvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	<u>Adjustments</u>	Retirements	A/D Only	(Calculated)	Balançe	Depres
1	301	Organization Cost	0.00%										-
2	302	Franchise Cost	0.00%								-		
3	303	Land and Land Rights	0.00%	ļ								210,000	
4	304	Structures & Improvements	3.33%	2,500		2,500					2,681	81,748	19.0
5	306	Collecting & Impounding Reservoirs	2,50%						-		-		
6	306	Lake, River, Canal Intakes	2.50%	!		-						-	
7	307	Wells & Springs	3.33%	7,900		7,000			-		94,188	2,631,962	580.2
8	306	Infiltration Galleries	6.67%										
9	309	Raw Water Supply Mains	2.00%										
10	310	Power Generation Equipment	5.00%						-		4,456	89,126	33.0
11	311	Pumping Equipment	12.50%								19,839	158,711	146.7
12	320	Water Treetment Equipment	3.33%								183	5,487	1,3
13	320 1	Water Treatment Plants	3.33%						-			-,,	
14	320.2	Solution Chemical Feeders	20,00%										
15	330	Distribution Reservoirs & Standpipes	2.22%								7,136	321,452	53.5
16	330.1	Storage Tanks	2.22%									UZ 1,4UZ	40 ,
17	330.2	Pressure Tanks	5.00%										
18	331	Transmission & Distribution Mains	2.00%	14,432		14,432					3,088	161,632	22.2
19	333	Services	3,33%	,		,					2,872	88,250	21.5
20	334	Meters	6.33%			-					-	03,200	210
21	335	Hydrants	2.00%								690	34,500	5,1
22	336	Backflow Prevention Devices	6.67%			_					-	34,300	•,,
23		Other Plant & Misc Equipment	8.67%										
24	340	Office Furniture & Equipment	6.67%						_		170	2,552	5
25	340.1	Computers & Software	20.00%									2,502	
26	341	Transportation Equipment	20.00%									- 1	
27	342	Stores Equipment	4.00%										
28	343	Tools, Shop & Garage Equipment	5.00%								-	-	
29	344	Laboratory Equipment	10.00%			-						•	
30	345	Power Operated Equipment	5.00%										
31	346	Communication Equipment	10.00%									-	
32		Miscellaneous Equipment	10.00%			-					•	•	_
33		Other Tangible Plant	10.00%						-			•	
~ M		Plant Held for Future Use							•		•	•	
35			1			•			•		•	•	•
36		TOTALS	. ,	23,932	 -	23,632				 -	135,303	3,983,419	865.5

Utility Source, LLC - Water Division Plant Additions and Retrements

Exhibit Rejoinder Schedule 8-2 Page 3.8 Mitness: Bourasse

Line	NARUC Account		Allowed Deprec. Rate	Plant Additions (Per Books)	Plent Adustments	Adjusted Plant Additions	Plent Retirements (Par Books)	Retirement Adjustments	2012 Adjusted Plent	Plant	Selvage	Depreciation	Plent	Accum.
						Charles	U. S. INCOLO.		Belimments	Adiosomolis	A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%									_		_
2	302	Franchise Cost	0.00%			•								
3	303	Land and Land Rights	0.00%	1					_				210,000	
4	304	Structures & Improvements	3.33%	l		•			_	(6,751)	(1,062)	2.722	72,997	20,6
5	305	Collecting & Impounding Reservoirs	2.50%	l		-			-	• • • •				20,0
6	306	Lake, River, Canal Intakes	2.50%											
7	307	Wells & Springs	3.33%			•				(1,478,423)	(293,372)	94,304	1,353,539	361,1
8	308	Infiltration Galleries	6.67%			•			_			- 1,52	.,555,555	
9	309	Raw Water Supply Mains	2.00%			-								
10	310	Power Generation Equipment	5.00%			-			-	(1,725)	(368)	4.456	87,400	37,1
11	311	Pumping Equipment	12.50%								, ,	9,910	150,711	158,7
12	320	Water Treatment Equipment	3.33%			-						183	5.487	1.5
13	320.1	Weter Trestment Plants	3.33%			-							0,40,	•,0
14	320.2	Solution Chemical Feeders	20.00%			-								
15		Distribution Reservoirs & Standpipes	2.22%									7,136	321,452	60.6
16	330.1	Storage Tanks	2.22%									1,100	-	00,0
17	330.2	Pressure Tanks	5.00%						_					
18	331	Transmission & Distribution Mains	2.00%						_			3,233	161,632	25.4
19	333	Services	3.33%									2,872	86.250	24,4
20	334	Meters	8.33%									*,0,1	00.250	24,4
21		Hydrants	2.00%						_			690	34,500	5.8
22		Backflow Prevention Devices	6.67%										34,330	3,6
23		Other Plant & Misc Equipment	6.67%			-								
24		Office Furniture & Equipment	8.67%	2,119		2,119						241	4,672	8
25		Computers & Software	20.00%										4,414	
26	341	Transportation Equipment	20.00%						-					•
27		Stores Equipment	4.00%									-		
26		Tools, Shop & Garage Equipment	5.00%			-						-		
29		Laboratory Equipment	10.00%						-					
90		Power Operated Equipment	5.00%											:
31		Communication Equipment	10.00%			-							-	
12		Miscelleneous Equipment	10.00%			-							:	
:3		Other Tangible Plant	10.00%			•							· ·	
14		Plant Held for Future Use											:	:
35			L									-	-	•
36		TOTALS	Г	2,119	•	2,119				(1,488,899)	(294,821)	125,757	2,496,640	716.48

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforme Adjustments Adjustment Number 2

Exhibit Rejoinder Schedule 8-2 Page 4 Witness: Bourassa

								VVIBIESS. DOUTES	5.H
Line			Accumulated Depr	eciation					
No.									
1				Δ	B	Adiustments C		_	
2				ω	P.	<u>v</u>	₽	E	Rejoinder
3	Acct.		Adjusted	Adjustments	Intentionally	Intentionally	Intentionally	Intentionally	Adjusted
5	No.	Description	Accum.	To Reconcile Plant	Left	Left	Left	Left	Accum.
6	301	Organization Cost	Depr.	To Reconstruction	Blank	Blank	Blank	Blank	Deor.
7	302	Franchise Cost	•	•					
8	303	Land and Land Rights	•	•					
9	304	Structures and improvements	20,662	•					
10	305	Collecting and Impounding Res.	20,002	•					20,662
11	306	Lake River and Other Intakes		•					-
12	307	Wells and Springs	381,185	•					-
13	308	Infiltration Galleries and Tunnels							381,185
14	309	Supply Mains	_	_					•
15	310	Power Generation Equipment	37,145	-					. •
16	311	Electric Pumping Equipment	168,630	(9,919)					37,145
17	320	Water Treatment Equipment	1,553	(0,0,0)					158,711
18		Water Treatment Plant	· •						1,553
19		Chemical Solution Feeders							•
20	330	Dist. Reservoirs & Standpipe	60,658						
21		Storage tanks	-						50,658
22	330.2		-						•
23	331	Trans, and Dist. Mains	25,457						06 457
24	333	Services	24,413						25,457
25	334	Meters	•	•					24,413
26 27	335	Hydrants	5,865	•					5,865
28	336 339	Backflow Prevention Devices	-	• •					3,003
29	340	Other Plant and Misc. Equip.	-	•					
30		Office Furniture and Fixtures	837	•					837
31		Computers and Software Transportation Equipment	•	•					-
32	342	Stores Equipment	•	-					
33		Tools and Work Equipment	•	•					
34	344	Laboratory Equipment	•	•					_
35		Power Operated Equipment	•	•					
36	346	Communications Equipment	•	•					-
37		Miscellaneous Equipment	•	•					_
38	348	Other Tangible Plant	•	•					-
39			-	•					•
40		TOTALS	\$ 726,406	\$ (9,919) \$					
41			7 725,700	• (a,aia) \$	•	\$ - \$		\$ - :	716,486
42	Accumul	ated Depreciation per Books							
43									726,406
44	Increase	(decrease) in Accumulated Depreci	ation						
45		•							(9,919)
46	Adjustme	nt to Accumulated Depreciation						-	
47								_3	(9,919)
		TING SCHEDULES							
	B-2, page								
50	B-2, page	s 4.2							

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 2 - A

Exhibit Rejoinder Schedule B-Page 4.1 Witness: Bourassa

Line								
No.								
1	Recond	citation to Reconstructed Accumulat	ted Depre	ciation				
2							Accumulated	
3			A	djusted	Α	djusted	Depreciation	
4	Acct.		Acc	umulated	Acc	umulated	Per Plant	
5	No.	Description	Der	preciation	Der	preciation	Reconstruction	Difference
6	301	Organization Cost		-		-	-	-
7	302	Franchise Cost		-		-		-
8	303	Land and Land Rights		-		_		_
9	304	Structures and Improvements		20,662		20,662	20,662	
10	305	Collecting and Impounding Res.				-	,	_
11	306	Lake River and Other Intakes				-	•	-
12	307	Wells and Springs		381,185		381,185	381,185	
13	308	Infiltration Galleries and Tunnels		-		-		-
14	309	Supply Mains		_		-		-
15	310	Power Generation Equipment		37,145		37,145	37,145	_
16	311	Electric Pumping Equipment		168,630		168,630	158,711	(9,919)
17	320	Water Treatment Equipment		1,553		1,553	1,553	(0,0.0)
18	320.1			-,555		-,,,,,	1,000	•
19	320.2	Chemical Solution Feeders		-		-		_
20	330	Dist. Reservoirs & Standpipe		60,658		60,658	60,658	-
21	330.1					-		
22	330.2	Pressure Tanks		•		-	•	-
23	331	Trans, and Dist. Mains		25,457		25,457	25.457	_
24	333	Services		24.413		24,413	24,413	
25	334	Meters		•				-
26	335	Hydrants		5,865		5,865	5,865	
27	336	Backflow Prevention Devices				· <u>-</u>	•	-
28	339	Other Plant and Misc, Equip.		-		-	-	
29	340	Office Furniture and Fixtures		837		837	837	-
30	340.1	Computers and Software		-		-	-	-
31	341	Transportation Equipment		•		-		-
32	342	Stores Equipment		-		-	•	-
33	343	Tools and Work Equipment		-		•	-	-
34	344	Laboratory Equipment		-		-	-	-
35	345	Power Operated Equipment				-		-
36	346	Communications Equipment		-		-	-	-
37	347	Miscellaneous Equipment		-		-	-	-
38	348	Other Tangible Plant		•		•	-	-
39		Plant Held for Future Use		<u> </u>				
40		TOTALS	\$	726,406	\$	726,406	\$ 716,486	\$ (9,919)
41							•	•

41 42 43 <u>SUPPORTING SCHEDULE</u> 44 B-2, pages 4.1 45 B-2, pages 3.3 - 3.9

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment 3

Exhibit Rejoinder Schedule B-2 Page 5.0 Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line				
<u>No.</u>				
1				
2				
3		Gross	Acc	cumulated
4		CIAC	Am	ortization
5	Computed balance at end of test year	\$ 294,745	\$	95,670
6			·	,
7	Adjusted balance at end of test year	\$ 294,745	\$	96,938
8		 ·		
9	Increase (decrease)	\$ -	\$	(1,267)
10				(, . ,
11				
12	Adjustment to CIAC/AA CIAC	 -	\$	1,267
13	Label	 3a		3b
14				
15				

SUPPORTING SCHEDULES

E-1

 B-2, page 5.1

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Contributions-in-aid of Construction (CIAC)

Exhibit Rejoinder Schedule B-2 Page 5.1 Witness: Bourassa

Line	
No.	
1	
2	
3	
4	
5	Gross CIAC
6	
7	Amortization Decision No. 70140
8	Amortization Rate
9	Amortization
10	Accumulated Amortization
11	
12	Net CIAC
13	
14	
15	
16	
17	
18	
19	
20	
21	Gross CIAC
22	
23	
24	Amortization Rate
25	Amortization
26	Accumulated Amortization
27	
28	Net CIAC
29	

	20	06	20	07	20	008	20	09
Balance 12/31/2005	Additions	Balance 12/31/2006	Additions	Balance 12/31/2007	Additions	Balance 12/31/2008	Additions	Balance 12/31/2009
294,745		294,745		294,745		294,745		294,745
16,207								
		3.67%		3.67%		3.66%		3.27
ĺ		10,817		10,817		10,788		9,636
		27,024		37,841		48,629		58,267
278,538		267,721	-	256,904		246,116	-	236,478

20	10	20	11	2012				
Additions	Balance 12/31/2010	Additions	Balance 12/31/2011	Additions	Balance 12/31/2012			
	294,745	-	294,745	*	294,745			
	3.60%		3.59%		5.50%			
	10,611		10,581		16,211			
	68,878		79,459		95,670			
	225,867		215,286		199,075			

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment 4 Customer Deposits

Exhibit Rejoinder Schedule B-2 Page 6.0 Witness: Bourassa

Line			
No.			
1			
2 3			
3			
4	Computed balance at end of test year	\$	5,885
5			
6	Book balance at end of test year	\$	5,885
7	•	<u> </u>	0,000
8	Increase (decrease)	\$	
9	molease (decrease)	Φ	-
10			
11			
12			
13			
14			
15			
16			
17			
18	AUDDODTING CONTROL RO		
19	SUPPORTING SCHEDULES		
20	Testimony		
21	Work papers		
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32	•		
33			
34			
35			

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Computation of Working Capital

Exhibit Rejoinder Schedule B-5 Page 1 Witness: Bourassa

Line <u>No.</u> 1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	10,138
3	Pumping Power (1/24 of Pumping Power)	•	2,783
4	Purchased Water (1/24 of Purchased Water)		· <u>-</u>
5	Prepaid Expenses		
6	•		
7			
8			
9	Total Working Capital Allowance	\$	12,921
10			
11			
12	Working Capital Requested	\$	-
13			
14			
15			
16		A allowa	- d T4 V
17	Total Consuling Forest	Adjust \$	ed Test Year
18	Total Operating Expense	Þ	211,193
19	Less:	\$	(1,255)
20	Income Tax	Ф	(1,255) 7,464
21 22	Property Tax		57,091
23	Depreciation Purchased Water		57,081
23 24	Pumping Power		66.787
25	Allowable Expenses	\$	81,106
26	1/8 of allowable expenses	\$ \$	10,138
26 27	170 OI Allowable expenses	<u> </u>	10,130
41			

SUPPORTING SCHEDULES: E-1

RECAP SCHEDULES: B-1

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Income Statement

Exhibit Rejoinder Schedule C-1 Page 1 Witness: Bourassa

Line No.			Test Year Adjusted	٨٨	iustment		Rejoinder Test Year Adjusted		Proposed Rate	,	Rejoinder Adjusted with Rate		
1	Revenues		Results	<u>Aŭ</u>	<u>tustinent</u>		Results		Increase		Increase		
2	Metered Water Revenues	\$	202,743	\$		\$	202 742	•	005.674		400 447		
3	Unmetered Water Revenues	•	202,743	Ψ	-	Ф	202,743	Þ	225,674	2	428,417		
4	Other Water Revenues		5,261		(1,820)		3,441				2 4 4 4		
5	Other Water Revenues	<u>_s</u>	208.004	Š	(1,820)	\$			205.674		3,441		
6	Operating Expenses	Ψ	200,004	ð	(1,020)	Ð	206,184	\$	225,674	2	431,858		
7	Salaries and Wages	\$				\$				•			
8	Purchased Water	Ą	•		-	4	•			\$	-		
9	Purchased Power		- 		-		60.707				-		
10	Fuel For Power Production		66,787		-		66,787				66,787		
					-		-						
11	Chemicals		1,460		-		1,460				1,460		
12	Materials and Supplies		12,257		-		12,257				12,257		
13	Office Supplies and Expense		2,399		•		2,399				2,399		
14	Contractual Services - Accounting		20,253		-		20,253				20,253		
15	Contractual Services - Professional		9,651		•		9,651			9,651			
16	Contractual Services - Maintenance		•		•		-			-			
17	Contractual Services - Other		-		-		-				-		
18	Water Testing		8,107		(7,733)		374				374		
19	Rents		-		-		-				•		
20	Transportation Expenses		-		-		-				•		
21	Insurance - General Liability		2,186		-		2,186				2,186		
22	Insurance - Health and Life		•		-		-				-		
23	Reg. Comm. Exp Other		-		-		-				-		
24	Reg. Comm. Exp Rate Case		10,000		6,687		16,667				16,667		
25	Miscellaneous Expense		19,976		(4,116)		15,860				15,860		
26	Bad Debt Expense		-		-		-				-		
27	Depreciation and Amortization Expense		57,728		(637)		57,091				57,091		
28	Taxes Other Than Income		-		-		-				· <u>-</u>		
29	Property Taxes		7,530		(66)		7,464		2,723		10,187		
30	Income Tax		(2,064)		809		(1,255)		44.670		43,415		
31	Total Operating Expenses	\$	216,269	\$	(5,076)	\$	211,193	\$	47,394	\$	258,587		
32	Operating Income	\$	(8,265)	\$	3,256	\$	(5,009)	5	178,280	\$	173,271		
33	Other Income (Expense)		• • •		•			•	,	•			
34	Interest Income		-		-		-				-		
35	Other income		•		-		-				-		
36	Interest Expense		-		-		-				-		
37	Other Expense		-		-		-				-		
38	·		-		_		-				-		
39	Total Other income (Expense)	\$	-	\$		\$		\$	•	\$	-		
40	Net Profit (Loss)	\$	(8,265)	\$	3,256	\$	(5,009)	Š	178,280	Š	173,271		
41	• •					-	<u> </u>	-	-,-,-,-	<u> </u>			
42	SUPPORTING SCHEDULES:						1	REC	AP SCHED	111 = 9	2.		
43	C-1, page 2						1	A-1		ر جايا ب	£.		
44	E-2							~-1					
45	= =												

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Income Statement Exhibit Rejoinder Schedule C-1 Page 2.1 Witness: Bourassa

			BEL>>>> Test Year		1		2		3		4		<u>5</u>		<u> </u>		Z
Line No.	•		Adjusted Results	De	preciation		Property Taxes	۲.	Rate se Expense		Revenue Adjustment		Water Testing		Auto		ephone
1	Revenues		T. Contract	2.4	pro-		THUM	70	99 FYDO 199		Colcentate		resurve	5	XDense	5	xpense
2	Metered Water Revenues	\$	202,743														
3	Unmetered Water Revenues	•															
4	Other Water Revenues		5,261								(1,820)						
5		\$	208,004	\$	-	\$		\$		2	(1,820)	\$		s		•	
6	Operating Expenses									•	(•		•		•	
7	Salaries and Wages	\$															
8	Purchased Water		-														
9	Purchased Power		66,787														
10	Fuel For Power Production		-														
11	Chemicals		1,460														
12	Materials and Supplies		12,257													•	
13	Office Supplies and Expense		2,399														
14	Contractual Services - Accounting		20,253														
15	Contractual Services - Professional		9,651														
16	Contractual Services - Maintenance		•														
17	Contractual Services - Other		•														
18	Water Testing		8,107										(7,733)				
19	Rents		•														
20	Transportation Expenses		-														
21	Insurance - General Liability		2,186														
22	Insurance - Health and Life		-														
23	Reg. Comm. Exp Other		-														
24	Reg. Comm. Exp Rate Case		10,000						8,687								
25	Miscellaneous Expense		19,978												(1,750)		(2,366)
26	Bad Debt Expense		•														
27	Deprec. and Amort. Exp.		57,728		(637)												
28	Taxes Other Than Income		•														
29	Property Taxes		7,530				(66)										
30	Income Tax		(2,084)														
31	Total Operating Expenses	-\$_	216,269	<u>\$</u>	(637)		(66)	\$	6,667	\$		5	(7,733)	\$_	(1,750)	\$	(2,366)
32	Operating Income	\$	(8,265)	\$	637	\$	66	\$	(6,667)	\$	(1,820)	5	7,733	\$	1,750	3	2,366
33	Other Income (Expense)																
34 35	Interest Income		•														
38	Other income		•														
37	Interest Expense		-														
38	Other Expense		-														
	Total Other town on (Figure 1)		<u> </u>									_					
39 40	Total Other Income (Expense)	\$		\$	-	\$		<u>\$</u>		\$		<u> </u>		\$		\$	
	Net Profit (Loss)		(8,265)	*	637	<u>\$</u>	66	\$	(6,667)	\$	(1,820) 3	_	7,733	\$_	1,750	\$	2,366
41	011000000000000000000000000																
42	SUPPORTING SCHEDULES:																
43	C-2																
44	E-2																

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Income Statement

Exhibit Rejoinder Schedule C-1 Page 2.2 Witness: Bourgasa

Line <u>No.</u> 1		<u>\$</u> Intentionally Left <u>Blank</u>	9 Intentionally Left <u>Blank</u>	<u>10</u> Intentionally Left <u>Blank</u>	11 Incor <u>Tax</u> e	ne	Rejoinder Test Year Adjusted <u>Results</u>	Proposed Rate Increase	Rejoi Adju with I Incre	sted Rate
2	Revenues Metered Water Revenues					s	202,743	\$ 225,674		00 447
3	Unmetered Water Revenues					3	202,743	\$ 225,674	> 4	28,417
4	Other Water Revenues						3,441			
5	Ottles satisfy Wilderings	- 2	\$	<u> </u>	\$	· s		\$ 225,674		3,441 31,858
6	Operating Expenses	•	•	• -	•		200, 104	\$ 225,074	> 4.	31,630
7	Salaries and Wages					s			S	
á	Purchased Water					•	-		•	•
9	Purchased Power						66,787			66,787
10	Fuel For Power Production						00,707		,	00,707
11	Chemicals						1,460			1.460
12	Materials and Supplies						12,257			12,257
13	Office Supplies and Expense						2,399			2.399
14	Contractual Services - Accounting						20,253			20,253
15	Contractual Services - Professional						9,651		•	20,255 9,651
16	Contractual Services - Maintenance						0,001			8,001
17	Contractual Services - Other									
18	Water Testing						374			374
19	Rents						-			
20	Transportation Expenses						_			
21	Insurance - General Liability						2,186			2,186
22	Insurance - Health and Life						2,100			2,100
23	Reg. Comm. Exp Other						_			-
24	Reg. Comm. Exp Rate Case						16,667		4	18,667
25	Miscellaneous Expense						15,860			15,860
26	Bad Debt Expense						15,000		- '	10,000
27	Deprec, and Amort. Exp.						57,091			57,091
28	Taxes Other Than Income						51,501		•	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
29	Property Taxes						7.464	2.723		10,187
30	Income Tax					609	(1,255)	44,670		43,415
31	Total Operating Expenses	\$.	\$.	\$	\$	809 S	211,193			58.587
32	Operating Income	\$	\$	\$ -	\$	(809) S	(5,009)			73,271
33	Other Income (Expense)	•		-		1/			• .,	·
34	Interest Income						-			
35	Other income						-			-
36	Interest Expense									-
37	Other Expense						-			
38										-
39	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$		-	\$ -	\$	
40	Net Profit (Loss)	\$	\$ -	\$.	\$	(809) \$	(5,009)	\$ 178,280	\$ 17	3,271
41	• •						<u> </u>			
42	SUPPORTING SCHEDULES:							RECAP SCHE	DULES:	
42	C 3							0.4 1	vysky.	

C-1, page 1

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Adjustments to Revenues and Expenses

Exhibit Rejoinder Schedule C-2 Page 1 Witness: Bourassa

Line			Adjustme	nts to Revenues an	d Expenses			
No.		1	2	<u>3</u>	4	<u>5</u>	<u>6</u>	Subtotal
1 2 3 4	Revenues	Depreciation Expense	Property <u>Taxes</u>	Rate Case Expense	Revenue Adjustment (1,820)	Water Testing	Auto Expense	(1,820)
5	-							(/
6 7	Expenses	(637)	(66)	6,667		(7,733)	(1,750)	(3,519)
8	Operating							
9 10	Income	637	66	(6,667)	(1,820)	7,733	1,750	1,699
11	Interest							
12	Expense						-	•
13	Other							
14 15	Income /							-
16	Expense							
17	Net Income	637	66	(6,667)	(1,820)	7 700	4 760	
18				(0,007)	(1,020)	7,733	1,750	1,699
19								
20			<u>Adjustmen</u>	its to Revenues and	d Expenses			
21		<u>7</u>	<u>8</u>	9	10	<u>11</u>		Subtotal
22			Intentionally	Intentionally	Intentionally			
23 24		Telephone	Left	Left	Left	Income		
24 25	Revenues	Expense	Blank	<u>Blank</u>	<u>Blank</u>	Taxes		
26	Novembes							(1,820)
27	Expenses	(2,366)	-	-	_	809		(5,076)
28	•						·	(3,076)
29	Operating							
30	Income	2,366	-	•	=	(809)	-	3,256
31	1-4							·
32 33	Interest							
34	Expense Other							•
35	Income /							
36	Expense							-
37								
38	Net Income	2,366	•			(809)		3,256
39								
40								

Exhibit Rejoinder Schedule C-Page 2 Witness: Bourassa

Depreciation Expense

Line No.							
1							
2			Adjusted		Adjusted		
3	Acct.		Original	Non-depreciable/	Original	Proposed	Depreciation
4	No.	Description	Cost	Fully Depreciated	Cost	Rates	Expense
5	301	Organization Cost	 .			0.00%	
6	302	Franchise Cost	_		_	0.00%	_
7	303	Land and Land Rights	210,000	(210,000)		0.00%	_
8	304	Structures and Improvements	72,997	(2.10,000)	72,997	3.33%	2,431
9	305	Collecting and Impounding Res.	12,007		12,001	2.50%	2,701
10	306	Lake River and Other Intakes	•		•	2.50%	•
11	307	Wells and Springs	1,353,539		1,353,539	3.33%	45.073
12	308	Infiltration Galleries and Tunnels	1,000,000		1,303,038		40,073
	309		-		•	6.67%	•
13		Supply Mains			90 425	2.00%	4 450
14	310	Power Generation Equipment	89,125	/	89,125	5.00%	4,456
15	311	Electric Pumping Equipment	158,711	(158,711)		12.50%	•
16	320	Water Treatment Equipment	5,487		5,487	3.33%	183
17	320.1	Water Treatment Plant	-		•	3.33%	•
18		Chemical Solution Feeders	•		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	321,452		321,452	2.22%	7,136
20	330.1	Storage tanks	-		•	2.22%	•
21	330.2	Pressure Tanks	•		•	5.00%	•
22	331	Trans. and Dist. Mains	161,632		161,632	2.00%	3,233
23	333	Services	86,250		86,250	3.33%	2,872
24	334	Meters	-			8.33%	
25	335	Hydrants	34,500		34,500	2.00%	690
26	336	Backflow Prevention Devices				6.67%	•
27	339	Other Plant and Misc. Equip.			_	6.67%	
28	340	Office Furniture and Fixtures	2,947		2,947	6.67%	197
29	340 1	Computers and Software	-,-			20.00%	-
30	341	Transportation Equipment				20.00%	_
31	342	Stores Equipment			_	4.00%	_
32	343	Tools and Work Equipment	_			5.00%	
33	344	Laboratory Equipment				10.00%	
34	345	Power Operated Equipment				5.00%	•
35	346	Communications Equipment	•		-	10.00%	•
36	347		•				-
30 37	348	Miscellaneous Equipment	•		•	10.00%	•
	348	Other Tangible Plant	- 0.400.040	2 (222.744)	. 0.407.000	10.00% _	·
38		TOTALS	\$ 2,496,640	\$ (368,711)	\$ 2,127,929		\$ 66,270
39							
40					Gross CIAC	Amort. Rate	
41	Less: Arr	nortization of Contributions			\$ 294,745	3.1143%	\$ (9,179)
42	Total Dep	preciation Expense				_	\$ 57,091
43							
44	Adjusted	Test Year Depreciation Expense					57,728
45	•	•				-	
46	Increase	(decrease) in Depreciation Expense					(637)
47		` ' ' '				-	
48	Adjustme	ent to Revenues and/or Expenses					\$(637)
49	· Jugarite	TO HOTOHOOD BEIGHT EXPENSES					(007)
49 50	CUBBOD	TIMO COLIEDUI E					
50 51		TING SCHEDULE			*Eulhi Danene!-4-4		
31	B-2, page				*Fully Depreciated	1	

Exhibit Rejoinder Schedul Page 3 Witness: Bourassa

Property Taxes

Line			Test Year		Company
No.	DESCRIPTION	į	as adjusted	Re	commended
1	Company Adjusted Test Year Revenues	\$	206,184	\$	206,184
2	Weight Factor		2	_	_ 2
3	Subtotal (Line 1 * Line 2)		412,368		412,368
4	Company Recommended Revenue		206,184		431,858
5	Subtotal (Line 4 + Line 5)		618,552		844,226
6	Number of Years		3		3
7	Three Year Average (Line 5 / Line 6)		206,184		281,409
8	Department of Revenue Mutilplier		2		2
9	Revenue Base Value (Line 7 * Line 8)		412,368		562,817
10	Plus: 10% of CWIP (intentionally excluded)		-		-
11	Less: Net Book Value of Licensed Vehicles		-		_
12	Full Cash Value (Line 9 + Line 10 - Line 11)		412,368		562,817
13	Assessment Ratio		20.0%		20.0%
14	Assessment Value (Line 12 * Line 13)		82,474		112,563
15	Composite Property Tax Rate - Obtained from ADOR		9.0503%		9.0503%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$	7,464	\$	10,187
17	Tax on Parcels		•		-
18	Total Property Taxes (Line 16 + Line 17)	\$	7,464		
19	Test Year Property Taxes	\$	7,530		
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$	(66)		
21					
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)			\$	10,187
23	Company Test Year Adjusted Property Tax Expense (Line 18)			\$	7,464
24	Increase in Property Tax Due to Increase in Revenue Requirement			\$	2,723
25	, , ,				7,
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 2	4)		\$	2,723
27	Increase in Revenue Requirement	''		Š	225,674
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27	3		•	1.20671%
29		,			1.2007170

Exhibit Rejoinder Schedule C-2 Page 4 Witness: Bourassa

Rate Case Expense

No. 1 2 3 Estimated Rate Case Expense \$ 50,000 4 5 Estimated Amortization Period in Years 3 6 7 Annual Rate Case Expense \$ 16,667 8 9 Adjusted Test Year Rate Case Expense \$ 10,000	Line			
Estimated Rate Case Expense \$ 50,000 Estimated Amortization Period in Years 3 Annual Rate Case Expense \$ 16,667	No.			
Estimated Rate Case Expense \$ 50,000 Estimated Amortization Period in Years 3 Annual Rate Case Expense \$ 16,667				
Estimated Amortization Period in Years 3 Annual Rate Case Expense \$ 16,667	2			
Estimated Amortization Period in Years Annual Rate Case Expense \$ 16,667	3	Estimated Rate Case Expense	\$	50,000
6 7 Annual Rate Case Expense \$ 16,667	4			
7 Annual Rate Case Expense \$ 16,667	5	Estimated Amortization Period in Years		3
8	6			
▲	7	Annual Rate Case Expense	\$	16,667
9 Adjusted Test Year Rate Case Expense \$ 10,000	8		<u> </u>	
a traincide iddi idei into desa mulanta	9	Adjusted Test Year Rate Case Expense	\$	10,000
10	10			_
11 Increase(decrease) Rate Case Expense \$ 6,667	11	Increase(decrease) Rate Case Expense	\$	6,667
12	12		=	
13 Adjustment to Revenue and/or Expense \$ 6,667		Adjustment to Revenue and/or Expense	\$	6,667
14	14	•		
15	15			
16 Reference	16	Reference		
17 Testimony	17			
18				
19				
20				

Exhibit Rejoinder Schedule C-2 Page 5 Witness: Bourassa

Revenue Adjustment

Line <u>No.</u>		
1		
2 3	Revenue Adjustment	\$ (1,820)
4		
5		
6.	Total Revenue from Annualization	\$ (1,820)
7		
8		
9	Adjustment to Revenue and/or Expense	\$ (1,820)
10		
11	Reference	
12	Staff Adjustment # 1	
13		
14		
15		
16		
17		
18		
19		
20		

Exhibit Rejoinder Schedule C-2 Page 6 Witness: Bourassa

Water Testing

Line <u>No.</u> 1		
2	RUCO Recommended Water Testing Expense	\$ 374
4 5	Adjuste Test Year Water Testing Expense	\$ 8,107
6 7	Adjustment to purchased power expense (rounded)	\$ (7,733)
8		(7.700)
9 10	Adjustment to Revenue and/or Expense	(7,733)
11	Reference	
12	RUCO Adjustment #2	
13		
14		
15		
16		
17		
18		
19		
20		

Exhibit Rejoinder Schedule C-2 Page 7 Witness: Bourassa

Auto Expense

Line		
<u>No.</u>		
1		
2	Test Year Auto Expense	\$ 1,500
3		
4	Staff Recommended Auto Expense	3,250
5		
6	Adjustment to Revenues	\$ (1,750)
7		
8		
9	Adjustment to Revenue and/or Expense	 (1,750)
10		
11	Reference	
12	Staff Adjustment #4	
13		
14		
15		
16		
17		
18		
19		
20		

Exhibit Rejoinder Schedule C-2 Page 8 Witness: Bourassa

Telephone Expense

Line <u>No.</u> 1		
2	Staff Recommended Telephone Expense	\$ 2,366
4 5	Adjusted Test Year Telephone Expense	4,732
6 7	Adjustment to Revenues	\$ (2,366)
8		
9 10	Adjustment to Revenue and/or Expense	\$ (2,366)
11	Reference	
12	Staff Adjustment #5	
13		
14		
15		
16		
17		
18 19		
20		

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Exhibit Rejoinder Schedule C-2 Page 9 Witness: Bourassa

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Line No. 1 2 3

Exhibit Rejoinder Schedule C-2 Page 10 Witness: Bourassa

Exhibit
Rejoinder Schedule C-2
Page 12
Witness: Bourassa

	Adjustment Number 11		Wi	tness: Boura:	ssa
Line					
No.					
1	Income Taxes				
2		T	est Year	Te	st Year
3		at Pr	esent Rates		osed Rates
4	Compauted Income Tax	\$	(1,255)	\$	43,415
5	Test Year Income tax Expense		(2,064)		(1,255)
6	Adjustment to Income Tax Expense	\$	809	\$	44,670
7		·			
8					
9					
10					
11					
12					
13	SUPPORTING SCHEDULE				
14	C-3, page 2				
15					
16					
17					

Utility Source. LLC - Water Division Test Year Ended December 31, 2012 Computation of Gross Revenue Conversion Factor Exhibit

Rejoinder Schedule C-3

Page 1 Witness: Bourassa

Line No. 1		Percentage of Incremental Gross <u>Revenues</u> 20.036%
2 3 4	Property Taxes	0.965%
5 6 7	Total Tax Percentage	21.001%
8 9 10 11	Operating Income % = 100% - Tax Percentage	78.999%
12 13 14 15	1 = Gross Revenue Conversion Factor Operating Income %	1.2658
17 18 19 20 21 22 23 24		
25 26 27 28 29 30 31 32 33 34 35 36 37 38 39	SUPPORTING SCHEDULES: C-3, page 2	RECAP SCHEDULES: A-1

Utility Source. LLC - Water Division Test Year Ended December 31, 2012

Rejoinder Schedule C-3 Page 2 Witness: Boursssa

GROSS REVENUE CONVERSION FACTOR

Line No.		(A)	(B)	(C)	(D)	(E) [F]
1 2 3 4 5	Calculation of Gross Revenue Conversion Factor. Revenue Lincollecible Factor (Line 11) Revenues (L1 - L2) Combined Federal and State Income Tax and Property Tax Rate (Line 23) Subtotal (L3 - L4) Revenue Conversion Factor (L1 / L6)	100,00007 0,00007 100,00007 21,00097 76,9911 1,265434				
7 8 9 10	Catastation of Uncollectible Fector, Unity Combined Federal and State Tax Rate (L17) One Minus Combined Income Tax Rate (L7 - L8) Uncollectible Rate Uncotlectible Factor (L9 * L10)	100.00009 20.03609 79.96409 0.00009	<u> </u>	<u>.</u>		
13 14 15 16	Celculation of Effective Tax Rate: Operating Income Before Taxes (Aizona Taxable Income) Arizona State Income Tax Rate Federal Taxable Income (L12 - L13) Applicable Federal Income Tax Rate (L55 Cot F) Effective Federal Income Tax Rate (L14 x L15) Combined Federal and State Income Tax Rate (L13 + L16)	100.00007 3.15274 96.84734 17.43254 16.88334	<u> </u>	ı		
18 19 20 21 22 23	Calculation of Effective Property Tax Factor Unity Combined Federal and State Income Tax Rate (L17) One Minus Combined Income Tax Rate (L18-L19) Property Tax Factor Effective Property Tax Factor (L20*L21) Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	100.000% 20.0360% 79.9640% 1,2067%	•	21.0009%		
24 25 26	Required Operating Income AdjustedTest Year Operating Income (Loss) Required Increase in Operating Income (L24 - L25)	\$ 173,271 \$ (5,009)	\$ 178,280			
27 28 29	Income Taxes on Recommended Revenue (Col. (F), L52) Income Taxes on Test Year Revenue (Col. (C), L52) Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ 43,415 \$ (1,255)	\$ 44,670			
31	Recommended Revenue Requirement Uncollectible Rate (Line 10) Uncollectible Expense on Recommended Revenue (L24 * L25) Adjusted * Test Vear Uncollectible Expense Required Increase in Revenue to Provide for Uncollectible Exp.	\$ 431,858 0.0000%				
36	Property Tax with Recommended Revenue Property Tax on Test Year Revenue Increase in Property Tax Due to Increase in Revenue (L35-L36)	\$ 10,187 \$ 7,464	\$ 2,723			
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 225,674	(0)	(7)	ara
	Calculation of Income Tex:	(A) Test	Year	(C) Water		[E] [F]
40 41	Revenue Operating Expenses Excluding Income Taxes Synchronized Interest (L47) Arizona Tax able Income (139 - 140 - 141)	\$ 206,184 212,448		\$ 205,184 212,448 \$ (6,264)	Total \$ 431,858 215,171 	Water \$ 431,858 215,171 \$ 216,687
44 45 46	Aizona State Effective Income Tax Rate (see work papers) Arizona Income Tay (L42 x L43) Federal Tay ship Income (L42 - L44) Federal Tay Rate Federal Tay Rate Federal Tay Rate	3.1527% \$ (197) \$ (6.08a) 17.4329% \$ (1.058)		3.1527% \$ (197) \$ (6,066) 17,4329%	3.1527% \$ 6,831 \$ 209,855 17.4329%	3,1527% \$ 6,831 \$ 209,855 17,4329%
48 49 50 51 52				\$ (1,058)	\$ 36,584	\$ 36,584
	Total Federal Income Tax Combined Federal and State Income Tax (L35 + L42)	\$ (1,058) \$ (1,255)		\$ (1,058) \$ (1,255)	\$ 36,584 \$ 43,415	\$ 36,584 \$ 43,415
56	COMBINED Applicable Federal Income Tax Rate (Col. [D], LS3 - Col. [A], LS3 / WASTEWATER Applicable Federal Income Tax Rate (Col. [E], L53 - Col. [B], LWATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], LS3] / [Col. [C], LS3 - Col. [C], LS3] / [Col. [C], LS3 - Col. [C], LS3] / [Col. [C], LS3 - Col. [C], LS3] / [Col. [C	53) / [Col. [E], L45 - Col. [B], L45]			17.4329%	0.0000% 17.4329%
58 59	Catcutation of Interest Synchronization: Rate Base Weighted Average Cost of Debt Synchronizad Interest (L59 X L60)		Wastwater \$ 1,575,194 0.0000% \$ -	Water \$ 1,575,194 0,0000% \$		

Utility Source, LLC - Water Division Revenue Summary Test Year Ended December 31, 2012 Exhibit Rejoinder Schedule H-1 Page 1 Witness: Bourassa

Line No. 1 2 3 4 5 6 7 8	Meter Size 3/4 Inch 3/4 Inch 2 Inch 2 Inch Bulk/Construction	Classification Residential Commercial Commercial Irrigation	\$	Total Revenues at Present Rates 159,301 322 38,120 1,776 3,482	S	Total Revenues at Proposed Rates 326,338 810 89,670 3,898 7,323	\$	Dollar Change 167,038 489 51,550 2,122 3,841	Percent Change 104.86% 152.01% 135.23% 119.50%	Percent of Present Water Revenues 77.26% 0.16% 18.49% 0.86%	Percent of Proposed Water <u>Revenues</u> 75.57% 0.19% 20.76% 0.90% 1.70%
9	Subtotals of Re	evenues	\$	203,001	\$	428,040	S	225,039	110.86%	98.46%	99,12%
10	Revenue Annua	alizations:	•	200,000	•	,20,0 .0	•	220,000	110.00%	30.4070	33.1270
11	3/4 Inch	Residential	\$	328	\$	632	\$	304	92.85%	0.16%	0.15%
12											
13											
14 15	Bulk/Constructio										
16		ue Annualization							0.00%	0.00%	0.00%
17	Subtotal Reven	we Annualization		328		632		304	92.85%	0.16%	0.31%
18	Total Pavenues	w/ Annualization	3	203,328	-	428,672	-	225,343	440.0004		
19	Misc Revenues		•	3,441	3	-	Þ	225,343	110.83%	98.61%	99.26%
20	Reconciling Am			(585)		3,441 (255)		330	0.00%	1.67%	0.80%
21	Total Revenues		-\$		_		_		-56.41%	-0.28%	-0.06%
22	· cai nevellues		<u> </u>	206,184	\$	431,858	\$	225,673	109.45%	100.00%	100.00%
23											

Utility Source, LLC - Water Division Analysis of Revenue by Detailed Class Test Year Ended December 31, 2012

Exhibit Rejoinder Schedule H-2 Page 1 Witness: Bourassa

			(a) Average Number of		•						
		Customer	Customers	A	Ayers				Proposed Inc		Percent
Line		Classification	at	Average	Present		Proposed		Dollar	Percent	of
No.		d/or Meter Size	<u>12/31/2012</u>	Consumption	Rates	٠	Rates	•	Amount	Amount	Customers
,	3/4 Inch	Residential	320	4,123	\$ 38.58	\$	75.33	Þ	36.76	95.27%	98.16%
2	3/4 Inch	Commercial	1	1,667	26.50		66.78		40.28	151.98%	0.31%
3	2 Inch	Commercial	3	115,286	1,004.10	_	2,262.58		1,258.47	125.33%	0.92%
4	2 Inch	Irrigation	1	-	\$ 148.00	\$	324.86	\$	176.86	119.50%	0.31%
5											
6	Construction	n/Bulk	1	26,251	290.19		610.24		320.05	110.29%	0.31%
7											
8											
9											
10											
11										_	
12	Totals		326							_	100.00%
13										-	
14	Actual Year	End Number									
15	of Custome	ers:	327								
16											
17											
18											
19											
,9											

Utility Source, LLC - Water Division Analysis of Revenue by Detailed Class Test Year Ended December 31, 2012 Exhibit Rejoinder Schedule H-2 Page 2 Witness: Bourassa

Line No.		Customer Classification d/or Meter Size	(a) Average Number of <u>Customers</u> at 12/31/2012	Median Consumption	Medi Present Rates	3iii Proposed <u>Rates</u>	Proposed Dollar Amount	Increase Percent Amount	Percent of Customers
1	3/4 Inch	Residential	320	3,500	\$ 35.30	\$ 69.31	\$ 34.01	96.34%	98.16%
2	3/4 Inch	Commercial	1	1,500	\$ 25.70	\$ 64.16	38.46	149.64%	0.31%
3	2 inch	Commercial	3	65,000	613.40	1,345.36	731.96	119.33%	0.92%
4	2 Inch	Irrigation	1	•	\$ 148.00	\$ 324.86	\$ 176.86	119.50%	0.31%
5									
6	Constructio	n/Bulk	1	40,501	437.69	919.48	481.79	110.08%	0.31%
7									
8									
9									
10	-							_	
11	Totals		326					-	100.00%
12									
13		End Number							
14	of Custom	ers:	327						
15									
16					-				
17									
18									

Utility Source, LLC - Water Division Revenue Breakdown Summary Present Rates

Exhibit Rejoinder Schedule H-2 Page 3 Witness: Bourassa

		N	lonthly <u>Mins</u>	ommodity <u>irst Tier</u>		ommodity cond Tier		ommodity hird Tier	Total
3/4 Inch	Residential	\$	71,262	\$ 54,684	\$	23,774	\$	9,908	\$ 159,629
3/4 Inch	Commercial	\$	222	\$ 89	\$	11	\$	-	\$ 322
2 Inch	Commercial	\$	5,328	\$ 14,424	\$	18,368	\$	-	\$ 38,120
2 Inch	Irrigation	\$	1,776	\$ -	\$	-	\$	-	\$ 1,776
Construction/Bu	ik	\$	222	\$ 3,260	\$	-	\$	-	\$ 3,482
	TOTALS	\$	78,810	\$ 72,457	\$	42,153	\$_	9,908	\$ 203,328
	Percent of Total		38.76%	35.64%		20.73%		4.87%	100.00%
	Cummulative %		38.76%	74.40%		95.13%		100.00%	
	Monthly Minimum	n Revo	enues	\$ Amount 78,810	<u>% of</u>	Revenues 38.76%			
	Commodity Reve								
	Lowest Commodi	•		\$ 54,773		26.94%			
	Middle Commodt	•		\$ 38,209		18.79%			
	Highest Commod	•		\$ 31,536		<u> 15.51%</u>			
	Subtotal Commod	dity Re	evenues	\$ 124,518		61.24%			
	Total Revenues			\$ 203,328		100.00%			

Utility Source, LLC - Water Division Revenue Breakdown Summary Proposed Rates

Exhibit Rejoinder Schedule H-Page 4 Witness: Bourassa

		I	Monthly Mins		ommodity First Tier		Commodity Second Tier	ommodity hird Tier	Total
3/4 Inch	Residential	\$	156,420	\$	93,419	\$	\$ 52,131	\$ 25,001	\$ 326,970
3/4 Inch	Commercial	\$	487	\$	290	\$		\$ · <u>-</u>	\$ 810
2 Inch	Commercial	\$	11,695	\$	31,628	\$	\$ 46,347	\$ -	\$ 89,670
2 Inch	Irrigation	\$	3,898	\$	-	\$	\$ -	\$ -	\$ 3,898
Construction/E	Bulk	\$	487	\$	6,836	\$	-	\$ -	\$ 7,323
	TOTALS	\$	172,988	\$	132,173	\$	98,510	\$ 25,001	\$ 428,672
	Percent of Total		40.35%		30.83%		22.98%	5.83%	100.00%
	Cummulative %		40.35%		71.19%		94.17%	100.00%	
	Monthly Minimum	Rove	muse	\$	Amount 172.988	%	6 of Revenues 40.35%		
	Commodity Rever		*******	•	172,300		40.33%		
	Lowest Commodit	y Rat	е	\$	93,709		21.86%		
	Middle Commodty	Rate	;	\$	83,791		19.55%		37.79%
	Highest Commodi	ty rate	9	\$	78,184		18.24%		
	Subtotal Commod	ity Re	venues	\$ 255,684			59.65%		
	Total Revenues		•	\$	428,672		100.00%		

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Present and Proposed Rates

Exhibit Rejoinder Schedule H-3 Page 1

Line		Pres	ent		Proposed			Percent
No.	Monthly Usage Charge for:	Rat			Rates		Change	Change
1	Meter Size (All Classes):				THEFT		- I I I I I I I I I I I I I I I I I I I	Attended.
2	5/8x3/4 Inch	\$	18.50	\$	40.61	s	22.11	119.50%
2	3/4 Inch	•	18.50	•	40.61	•	22.11	119.50%
3	1 Inch		46.50		101.52		55.02	118.32%
4	1 1/2 Inch		92.50		203.04		110.54	119.50%
5	2 inch		148.00		324.86		176.86	119.50%
6	3 Inch		296.00		649.72		353.72	119.50%
7	4 Inch		462.50		1,015,19		552.69	119.50%
8	6 Inch		925.00		2,030.38		1,105.38	119.50%
9							•	
10								
11								
12	Gallons In Minimum (All Classes)		-		-			
13								
14					(Per 1,000	gal	ions)	
15					Present	Ť	raposed	
16	Commodity Rates	Block			Rate		Rate	
17								
18	5/8x3/4 Inch (Residential, Commercial)	1 gallons to 4,000 gallons		\$	4.80	\$	8.20	
19		4,001 gailons to 9,000 gallons		\$	7.16	\$	15.70	
20		over 9,000 gallons		\$	8.60	\$	21.70	
21								
22	3/4 Inch Meter (Residential, Commercial)	1 gallons to 4,000 gallons		\$	4.80	\$	8.20	
23		4,001 gallons to 9,000 gallons		\$	7.16	\$	15.70	
24		over 9,000 gallons		\$	8.60	\$	21.70	
25								
26	1 Inch Meter (Residential, Commercial)	1 gallons to 27,000 gallons		3	4.80		15.70	
27		over 27,000 gallons		5	7.16	\$	21.70	
28								
29	1.5 Inch Meter (Residential, Commercial)	Over Minimum up to 57,000 gall	lons	\$	4.80		15.70	
30		Over 57,000 gallons		\$	7.16	\$	21.70	
31								
32	2 Inch Meter (Residential, Commercial)	1 gallons to 94,000 gallons		\$	4.80	\$	15.70	
33		over 94,000 gallons		\$	7.16	5	21.70	
34								
35	3 Inch Meter (Residential, Commercial)	1 gallons to 195,000 gallons		\$	4.80		15.70	
36		over 195,000 gallons		\$	7.16	5	21.70	
37								
38								
39								
40	NT = No Tariff							
41								

Utility Source, LLC - Water Division Test Year Ended December 31, 2012 Present and Proposed Rates

Exhibit Rejoinder Schedule H-3 Page 2

Line						
No.						
1				(Per 1,000	gallor	ns)
2				Present		posed
3	Commodity Rates	Block		Rate		Rate
4	4 Inch Meter (Residential, Commercial)	1 gallons to 309,000 gallons	\$	4.80		15.70
5		over 309,000 gallons	\$	7.16	\$	21.70
6						
7 8	6 Inch Meter (Residential, Commercial)	1 gallons to 615,000 gallons	\$	4.80		15.70
9		over 615,000 gallons	\$	7.16	\$	21.70
10	Irrigation Meters	All gallons	s	9.26		15.70
11	ingalibri welers	All gallons	•	3.20	•	15.70
12	Standpipe or Bulk	All gallons	S	10.35	•	21.70
13	Custopipe of Don	An gonona	•	10.50	•	21.70
14	Construction	All gallons	\$	10.35	\$	21.70
15		• • • • • • • • • • • • • • • • • • • •	•		•	
16						
17						
18						
19						
20						
21						
22 23						
23						
25						
26						
27						
28						
29						
30						
31						
32						
33 34						
35						
36						
37						
38						
39						
40						
41						
42	Construction/Standpipe	All gallons		NT	\$	21.70
43						
44	NT = No Tariff					

Utility Source, LLC - Water Division Present and Proposed Rates Test Year Ended December 31, 2012

Exhibit Rejoinder Schedule H-3 Page 3 Witness: Bourassa

Line							
No.							
1	Meter and Service Line C	haroes1					
2			Present			Proposed	
3		Present	Meter		Proposed	Meter	
4		Service	instali-	Total	Service	Install-	Total
5		Line	ation	Present	Line	ation	Proposed
6		Charge	Charge	Charge	Charge	Charge	Charge
7	5/8 x 3/4 Inch			\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
8	3/4 Inch			575,00	415.00	205.00	620.00
9	1 Inch			660.00	465.00	265.00	730.00
10	1 1/2 Inch			900.00	520.00	475.00	995.00
11	2 Inch Turbo			1,525.00	800.00	995.00	1,795.00
12	2 Inch, Compound			2,320.00	800.00	1,840.00	2,640.00
13	3 Inch Turbo			2,275.00	1,015.00	1,620.00	2,635.00
14	3 inch, compound			3,110.00	1,135.00	2,495.00	3,630.00
15	4 Inch Turbo			3,360.00	1,430.00	2,570.00	4,000.00
16	4 Inch, compound			4,475.00	1,610.00	3,545.00	5,155.00
17	6 Inch Turbo			6,035.00	2,150.00	4,925.00	7,075.00
18	6 Inch, compound			8,050.00	2,270.00	6,820.00	9,090.00

6 Inch, compound	8,050.00	2,
_		
Based on ACC Staff Engineering Memo dated Feb.	urary 21, 2008	
Other Charges:		
	· · · · · · · · · · · · · · · · · · ·	
Establishment		<u> </u>
Establishment (After Hours)		
Reconnection (Delinquent)		
Reconnection (After hours)		<u>. </u>
Meter Test		5
Minimum Deposit Requirement		ER
Deposit Interest		ER
Re-establishment (Within 12 months)	<u> </u>	ER
NSF Check	<u> </u>	<u>L</u> ,
Deferred Payment, per month		
Meter Re-read		
Late Charge	<u> </u>	_1
Customer requested Meter Test	ļ	<u> </u>
After hours service charge		_
Moving Customer Meter (at customer request)		Cost
	<u> </u>	
(a) \$ 5.00 minimum or 1.5% of unpaid balance which		
* After hours service charge will apply when service i	equested by cust	OM

\$	20.00
	moved
\$	50.00
*Re	moved
\$	20.00
	RULE
	RULE
PER	RULE
\$	20.00
	1.5%
\$	10.00
	1.5%
\$	20.00
\$	40.00
Cos	1

(a) \$ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

* After hours service charge will apply when service requested by customer after hours.

Wastewater Rejoinder Schedules

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Computation of Increase in Gross Revenue Requirements As Adjusted

Exhibit Rejoinder Schedule A-1 Page 1 Witness: Bourassa

Line									
No.									
1	Fair Value R	tate Base					\$	825,856	
2	A 11 . A . L O	e: 1							
3 4	Adjusted Op	erating Income						(83,387)	
5	Current Rate	of Paturo						-10.10%	
6	Current Nate	e or return						-10.10%	
7	Required Or	perating Income					\$	90,844	
8		ordanig moonio					Ψ	30,011	
9	Required Ra	ite of Return						11.00%	
10	•								
11	Operating In	come Deficiency					\$	174,232	
12									
13	Gross Rever	nue Conversion Factor						1.2021	
14		_							
15		Gross Revenue							
16	Requireme	nt					\$	209,436	
17	A.dia.a. d T	AV D					_		
18 19		st Year Revenues					\$	119,464	
20		Gross Revenue Revenue Requirement evenue Requirement					\$ \$	209,436	
21	% Increase	svenue requirement					Þ	328,900 175.31%	
22	76 Increase							175.31%	
23	Customer			Present		Proposed		Dollar	Percent
24	Classification	on .		Rates		Rates		Increase	increase
25	3/4 Inch	Residential	\$	92,479	\$	287,729	\$	195,250	211.13%
26	3/4 Inch	Commercial		114		740		626	547.81%
27	2 Inch	Commercial		23,698		36,829		13,131	55.41%
28								-	0.00%
29	Revenue An	nualization		173		741		567	327.23%
30	Subtotal		\$	116,465	\$	326,039	\$	209,574	179.95%
31									
32	Other Water			3,441		3,441		-	0.00%
33	Reconciling A	Amount		(442)		(580)		(138)	31.22%
34 35	Rounding Total of Wat	ns Payanua	-	140.464	_	200.000	_	-	0.00%
35 36	I OTAL OL WAL	at Vasaiines	<u>\$</u>	119,464	\$	328,900	\$	209,436	175.31%

36 37

38 SUPPORTING SCHEDULES:

39 B-1

40 C-1

41 42 C-3

H-1

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Summary of Rate Base

Exhibit Rejoinder Schedule B-1 Page 1 Witness: Bourassa

Line <u>No.</u> 1		riginal Cost Rate base	Fair Value Rate Base		
2 3 4	Gross Utility Plant in Service Less: Accumulated Depreciation	\$ 1,397,271 455,092	\$	1,397,271 455,092	
5 6	Net Utility Plant in Service	\$ 942,179	\$	942,179	
7	Less:				
8 9	Advances in Aid of Construction	-		-	
10 11	Contributions in Aid of Construction	197,973		197,973	
12 13	Accumulated Amortization of CIAC	(86,715)		(86,715)	
14 15	Customer Meter Deposits Deferred Income Taxes & Credits	5,065		5,065	
16 17				-	
18	•				
19	Plus:				
20	Unamortized Finance				
21	Charges	-		-	
22	Prepayments	-		-	
23	Materials and Supplies	•		-	
24	Allowance for Working Capital	•		-	
25					
26					
27					
28 29	Total Rate Base	\$ 825,856	\$	825,856	
30					
50					

SUPPORTING SCHEDULES: B-2

43 <u>SUF</u> 44 B-2 45 B-3 46 B-5 47 E-1

52

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments

Exhibit Rejoinder Schedule B-2 Page 1 Witness: Bourassa

Line <u>No</u> 1 2 3		\$	Adjusted at end of Test Year 1,397,271	Proforma <u>Adjustment</u> -	\$	Rebuttal Adjusted at end of Test Year 1,397,271
4	Less:					
5	Accumulated					
6	Depreciation		455,064	00		
7	•		400,004	28		455,092
8			~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~			
9	Net Utility Plant					
10	in Service	\$	942,207		\$	040 470
11		·			Ą	942,179
12	Less:					
13	Advances in Aid of					,
14	Construction		-	-		_
15						-
16	Contributions in Aid of					
17	Construction - Gross		197,973	-		197,973
18				•		.01,010
19	Accumulated Amortization of CIAC		(86,711)	(4)		(86,715)
20	0			, ,		(00), 10)
21 22	Customer Meter Deposits		•	5,065		5,065
22	Accumulated Deferred Income Tax		-	•		-
23 24						-
25						-
26	Plus:		•			
27	Unamortized Finance			the state of the s		
28	Charges					
29	Prepayments		•	-		-
30	Materials and Supplies		-	•		-
31	Working capital		-	-		-
32			-	•		-
33						-
34	Total	\$	830,945		_	222
35		- <u>-</u> -			\$	825,856
36						
37						
38						
39						

SU	PPORTING	SCHEE	ULES:
	nanes 2		

47 E-1

48 49 50

46

RECAP SCHEDULES: B-1 Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments

Exhibit Rejoinder Schedule B-2 Page 2 Witness: Bourassa

							Pro	ofor	me Adjustr	nen	ts				Rebutal
			Adjusted		1		2		3		- 4		<u>5</u>		Adjusted
Line			at end				_		-		-		Intentionally		at end
			of		Plant-in-	-	ccumulated				Customer		Left		of
<u>No.</u> 1	0		Test Year		Service		Depreciation		CIAC		Deposits		Blank		
	Gross Utility										B obodio		DIST I		Test Year
2	Plant in Service	\$	1,397,271		-									s	4 007
3					•									•	1,397,271
4	Less:														
5	Accumulated														
6	Depredation		455,064				28								
′															455,092
8								_						-	
9	Net Utility Plant														
10	in Service	\$	942,207	\$		s	(28)	\$	_	s		s		_	
11						•	(=0)	•		Ψ	-	9	-	\$	942,179
12	Less:														
13	Advances in Aid of														
14	Construction		-												
15	_														•
16	Contributions in Aid of														
17	Construction (CIAC)		197,973												
18			•												197,973
19	Accumulated Amort of CIAC		(86,711)						(4)						
20	_								(-)						(86,715)
21	Customer Meter Deposits		-								5.065				
22	Accumulated Deferred Income Taxes		-								3,065				5,065
23															-
24															
25	Plus:														
26	Unamortized Finance														
27	Charges		-												
28	Prepayments		-												-
29	Materials and Supplies														-
30	Allowance for Cash Working Capital														•
31									•						•
	Total	\$	830,945	\$	•	Š	(28) \$	_	4	•	(5,065)	-			
33		-	-	_			- 1-1/			•	(0,000)	<u>.</u>		\$	825,856
34														-	

34 35 36 <u>SUPPORTING SCHEDULES</u>: 37 B-2, pages 3-5 38 E-1 39

RECAP SCHEDULES: 8-1

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 1

Exhibit Rejoinder Schedule 8-2 Page 3 Witness: Bourassa

			1	-IBIN-IN-Service					
Line No.						Adjustments			
1				A	9	C	D	£	
2				Adjustments	-	*	-	-	Rebuttal
3			Adjusted	Required to	Intentionally	Intentionally	Intentionally	Intentionally	Adjusted
4	Acct.		Original	Reconcile to	Left	Left	Left	Left	Original
5	No.	Description	Cost	Reconstruction	Blank	Blank	Blank	Blank	Cost
6	351	Organization Cost	-	•				·—	-
7	352	Franchise Cost	-	•					
8	353	Land and Land Rights	105,000	•					105,000
9	354	Structures & Improvements	56,350	•					56,350
10	355	Power Generation Equipment	2,879	-					2,879
11	360	Collection Sewers - Force	-	•					
12	361	Collection Sewers - Gravity	260,553	-					260,553
13	362	Special Collecting Structures	-	-					•
14	363	Servcies to Customers	60,375	•					60,375
15	364	Flow Measuring Devices	-	•					
16	365	Flow Measuring Installations	-	•					•
17	366	Reuse Services	3,450	-					3,450
18	367	Reuse Meters and Meter Installation		•					•
19	370	Receiving Wells	•						•
20	371	Pumping Equipment	•	•					-
21	374	Reuse Distribution Reserviors	•	•					•
22	375	Reuse Transmission and Distribution		•					-
23	380	Treatment & Disposal Equipment	903,992	•					903,992
24	381	Plant Sewers	•	•,					•
25	382	Outfall Sewer Lines	•	•					•
26	389	Other Plant & Misc Equipment	•	•					•
27	390	Office Furniture & Equipment	4,672	(421)					4,251
28	390.1		•	421		e .			421
29	391	Transportation Equipment	•	•					•
30	392	Stores Equipment	•	•					-
31	393	Tools, Shop & Garage Equipment	•	•					•
32	394	Laboratory Equipment	•	•					-
33	395	Power Operated Equipment	•	•					-
34 35	396	Communication Equipment	•	-					-
35 36	397	Miscelleneous Equipment Other Tangible Plant	•	•					•
37	398		\$ 1,397,271	\$ (0) :		3 -		\$.	\$ 1,397,271
38		TOTALS	\$ 1,387,271	• (v) •	•	•	•	•	3 1,397,271
39	Dinat in	-Service per Books							\$ 1,397,271
40	PHIN-IN	-Service per Books							1,397,271
	loomag	e (decrease) in Plant-in-Service							
42	HICHER	s (decidate) in Fibrical-Salvica							
43	Adicato	nent to Plant-in-Service							
44	nujusiii	ICIN IO FRANCISCO INCO							<u> </u>
44 45	CUBBS	RTING SCHEDULES							
46									
47	B-2, pag	ges a. i							
71									

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 1 -A

Exhibit Rejoinder Schedule B-Page 3.1 Witness: Bourassa

Line					
<u>No.</u>	_	" "			
1	Recond	cilation to Reconstructed Plant-in-Servi	<u>ce</u>		
2			A . U	D14	
3			Adjusted	Plant	
4	Acct.		Orginal	Per	Adjustment
5	No.	Description	Cost	Reconstruction	Required
6	351	Organization Cost	~	-	-
7	352	Franchise Cost			-
8	353	Land and Land Rights	105,000	105,000	-
9	354	Structures & Improvements	56,350	56,350	•
10	355	Power Generation Equipment	2,879	2,879	-
11	360	Collection Sewers - Force	-	-	-
12	361	Collection Sewers - Gravity	260,553	260,553	-
13	362	Special Collecting Structures	•	-	-
14	363	Servoies to Customers	60,375	60,375	•
15	364	Flow Measuring Devices	•	-	-
16	365	Flow Measuring Installations	•	-	-
17	366	Reuse Services	3,450	3,450	-
18	367	Reuse Meters and Meter Installation	-	•	-
19	370	Receiving Wells	-	-	-
20	371	Pumping Equipment	-	-	-
21	374	Reuse Distribution Reserviors	-	-	-
22	375	Reuse Transmission and Distributio	-	•	-
23	380	Treatment & Disposal Equipment	903,992	903,992	-
24	381	Plant Sewers	•	•	-
25	382	Outfall Sewer Lines	•	-	-
26	389	Other Plant & Misc Equipment	-	-	-
27	390	Office Furniture & Equipment	4,672	4,251	(421)
28	390.1	Computers & Software	-	421	421
29	391	Transportation Equipment	-	-	
30	392	Stores Equipment	-	•	-
31	393	Tools, Shop & Garage Equipment	-	-	_
32	394	Laboratory Equipment	•		•
33	395	Power Operated Equipment	-	-	-
34	396	Communication Equipment	-		-
35	397	Miscellaneous Equipment		-	-
36	398	Other Tangible Plant	_		-
37			1,397,271	\$ 1,397,271	\$ (0)
38				.,,,	- (0)

38 39 40 41 42 SUPPORTING SCHEDULE B-2, pages 3.2 - 3.8

Exhibit Rejoinder Schedule 8-2 Page 3.2 Witness: Bourasse

				Per Deck	ion 70140										
	NARU	ic .	Allowed		Accum.	Plant		4.0		20					
Line	Accou	nt	Depres.	Plent at	Depres. At	Additions		Adjusted	Plant		Adjusted				
No.	No.	Description	Rate	12/31/2005	12/31/2005		Plant	Plent	Retirements	Retirement	Plant	Salvege	Depreciation	Plant	Acoum,
_			1	1831/2008	1231/2015	(Per Books)	Adjustmente	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Culcutates)	Batance	Depres
1	351	Organization	0.00%												
2	352	Franchise	0.00%			ł		•			-				
3	353	Lend	0.00%	105,000	•	ı		•					-	-	
4	354	Structures & Improvements	3,33%	56,350	2,615			-			-			105,000	
5	355	Power Generation	5.00%	2,879	2.615						-		1,876	58,360	4.6
6	360	Collection Sewer Forced	2.00%	2,516	210	1		-					144	2,879	3
7	361	Collection Sewers Gravity	2.00%	260,553				•						-	
8	362	Special Collecting Structures	2.00%	200,553	7,817			-					5,211	260,553	13,0
9	363	Customer Services	2.00%	60,375											10,0
10	364	Flow Measuring Devices	10.00%	60,375	1,811						-		1,208	60,375	3.0
10	365	Flow Measuring Installations						-			-				3,0
10	365	Reuse Services	10.00%										_	:	•
12	367	Rouse Moters And Installation	2.00%	3.450	518								69	3,450	:
13	370	Receiving Wells	8.33%		1								•	3,430	54
14	371		3.33%	-	-]			-						-	
15	374	Pumping Equipment	12.50%	-	- !								•	-	-
16	375	Reuse Distribution Reservoirs	2.50%		1			-			-		•	•	
17		Reuse Trans. and Dist. System	2.50%								-		•	•	
	380	Treatment & Disposal Equipment	5.00%	890,485	66,786									-	•
18	381	Plant Sewers	5.00%								-		44,524	890,485	111,31
19	382	Outfall Sewer Lines	3.33%	-							•		•	-	
20	369	Other Sewer Plant & Equipment	6.67%		- 1						•		•	•	
21	390	Office Furniture & Equipment	8.67%								-		-		•
22	390.1	Compilers and Software	20.00%		. !						•		-	-	
23	391	Transportation Equipment	20.00%	-	- 1						•		-	•	
24	392	Stores Equipment	4.00%		. 1						•		•	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	- 1			-			•		•		
26	394	Laboratory Equip	10.00%		. !			•			-			-	
.6	395	Power Operated Equipment	5.00%	_				-			-		•	-	-
16	396	Communication Equip	10.00%	_				-			•			-	
16	397	Miscelleneous Equipment	10.00%		- 1			•			-				
6	398	Other Tangible Plant	10.00%	_				•			-				
9		· · · · · · · · · · · · · · · · · · ·	75.55	·	1.1			•			-			_	
0		1	- 1	-				•			-			-	
1			- 1	-	•			-					-		
2		l		•	- 1			•			•				
3		i	I	•	1			-			-				•
4		j	- 1	•										•	•
5		1	[ł						-			-	•
5		TOTALS	<u> </u>										-	•	•
_		701720		1,379,092	79,982	_ • • • • • • • • • • • • • • • • • • •							53,032	1,379,092	132,995

Utility Source, LLC - Wastewater Division Plant Additions and References

Exhibit Rejoinder Schedule B-2 Page 3.3 Witness: Bourasses

	MARUC	}	Allowed					200	7				
ine	Account		Depres.	Plant Additions		Adjusted	Plant		Adjusted				
Vo.	No.	Description	Rate	(Per Books)	Plant Adjustments	Plent Additions	Retirements (Per Spoks)	Retirement Adjustments	Plant Retirementa	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum
1	351	Organization	0.00%										2101
2	352	Franchise	0.00%			•			•			-	
3	353	Land	0.00%			•			•		-		
4	354	Structures & Improvements	3.33%			-			•		•	105,000	
5	355	Power Generation	5,00%			•			-		1,876	56,350	6
6		Collection Sewer Forced	2.00%			•			-		144	2,879	
7	361	Collection Sewers Gravity	2.00%			•			-		-		
8	362	Special Collecting Structures	2.00%			-			-		5,211	260,553	18
9	363	Customer Services	2.00%			•			-		-		
0	364	Flow Measuring Devices	10.00%			•			-		1.208	60,375	4
0		Flow Measuring Installations	10.00%			-			-				-
0		Reuse Services	2.00%			•			-		_	-	
2	367	Reuse Meters And Installation	0.33%			•			-		69	3,450	
3		Receiving Walls	3.33%			•						3.430	
4		Pumping Equipment	12.50%			•			-			_	
5		Reuse Distribution Reservoirs	2.50%										
3		Reuse Trans. and Dist. System	2.50%			-			-			-	
7		Treatment & Disposal Equipment	5,00%			•			-			•	
•		Plant Sewers	5.00%			•					44,524	890,485	
,		Dutlet Sewer Lines	3.33%			-						000,403	155,
,		Other Sewer Plant & Equipment	5.67%			-			-			•	
		Office Furniture & Equipment				-						•	
١.	390.1	Computers and Software	6.67%			-			-		-	•	
		rensportation Equipment	20.00%			-					-	•	
		Stores Equipment	20.00%			-					-	•	
		ools, Shop And Gerage Equip	4.00%			•					•	•	
	394 L	aboratory Equip	5.00%						-		•	•	
		ower Operated Equipment	10.00%			-			-		•	•	
		communication Equipment	5.00%			-			_		•	•	
		iscellansous Equipment	10.00%			-			_		-	-	
		ther Tangible Plant	10.00%						_		•	• .	
	U	TOWN TRINGING PLANS	10.00%								•	•	
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	NARU		Allowed	Plant		Adjusted	Plant	20	08				
,me	Accou	nt .	Deprec.	Additions	Plant	Plant	Retirements		Adjusted				
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions		Retirement	Plant	Salvage	Depreciation	Plant	Accu
					Caracheration	CHAUCAS	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Depr
1	351	Organization	0.00%										
2	352	Franchise	0.00%			•			•		-		
3	353	Land	0.00%			•			-				
•	354	Structures & improvements	3.33%			-			•			105,000	
5	355	Power Generation	5.00%			•			•		1,876	56,350	
i	360	Collection Sewer Forced	2.00%			•			-		144	2,879	
,	361	Collection Sewers Gravity	2.00%			•			•			-	
1	362	Special Collecting Structures	2.00%			-			•		5,211	280,553	2
1	363	Customer Services	2.00%			•			-		-	•	_
•	364	Flow Measuring Devices	10,00%			•			-		1,208	60,375	
•	365	Flow Measuring Installations	10.00%			•					-		
•	366	Reuse Services	2.00%			•			-				
?	367	Reuse Meters And Installation	8.33%			•			-		69	3,450	
3	370	Receiving Wells	3,33%			-			-			3,430	
1	371	Pumping Equipment	12.60%			•			•		_		
	374	Reuse Distribution Reservoirs	2.50%			•							
	375	Reuse Trans. and Dist. System	2.50%			•					_	•	
	380	Treatment & Disposal Equipment	5.00%			•					_	•	
		Plant Sewers	5.00%	13.507		13,507			-		44,862	903,982	
		Outfall Sewer Lines	3.33%			•			-		44,002	903,992	200
		Other Sewer Plant & Equipment	6.67%			•							
	390	Office Furniture & Equipment				-						-	
	390.1	Computers and Software	6.67%	2,562		2,552			-		85		
		Transportation Equipment	20.00%			-					40	2,552	
		Stores Equipment	20.00%			-					•	•	
		Tools, Shop And Gerage Equip	4.00%			-					•	•	
		Laboratory Equip	5.00%			-					•	-	
		Power Operated Equipment	10.00%			•			_		•	•	
		Communication Equipment	5.00%			-			_		•	-	
	397	Viscellaneous Equipment	10.00%			-			_		•	•	
		Other Tangible Plant	10.00%								•	•	
		Series (Birthrope Sales)	10.00%						_		•	-	
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		OTALS		16,059		16,059					53,455		

							2009				
₹UC	Allowed	Plant		Adjusted	Plent		Adjusted				
bunt	Deprec.	Additions	Plent	Plent	Retirements	Retirement	Plant	Salvege	Depreciation	Plent	Accum.
o Description	Rete	(Per Books)	Adjustments*	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1 Organization	0.00%	l									
2 Franchise	0.00%	!		-							
i3 Land	0.00%	1								106,000	
4 Structures & Improvements	3.33%	1							1,676	56,350	10,30
i5 Power Generation	5.00%	1					-		144	2,879	75
D Collection Sewer Forced	2.00%										
1 Collection Sewers Gravity	2.00%						-		5,211	260,553	28,66
2 Special Collecting Structures	2.00%						-		•		,
3 Customer Services	2.00%						-		1,208	60,375	6.64
4 Flow Measuring Devices	10.00%			-							
6 Flow Messuring Installations	10.00%								-		
6 Reuse Services	2.00%			-					69	3,450	78
7 Reuse Meters And Installation	8.33%			-			-			-	
0 Receiving Wells	3.33%			-							
1 Pumping Equipment	12.50%						-				
4 Reuse Distribution Reservoirs	2.50%			-							
5 Reuse Trans, and Dist. System	2.50%						•			-	
D Treatment & Disposal Equipment	5.00%			-					45,200	903,962	245,88
Plant Sewers	5.00%									-	
2 Outfall Sewer Lines	3.33%										
9 Other Sewer Plant & Equipment	6.87%						-				
Office Furniture & Equipment	6.67%						-		170	2,552	25
1 Computers and Software	20.00%						•				
Transportation Equipment	20.00%						-				
2 Stores Equipment	4.00%						•				
Tools, Shop And Garage Equip	5.00%										
Laboratory Equip	10.00%						-				
Power Operated Equipment	5.00%			•			•				
Communication Equip	10.00%						•			•.	
Miscellaneous Equipment Other Tangible Plant	10.00%						•			•	
Other Tangible Plant	10.00%			-			-				
	1 1						•			•	
	1 1						•		-		-
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1							-		•		
ł	1			-			•		-		-
70744.6	ı ⊢										293,36
TOTALS										53,676	53,878 1,386,151

Utility Source, LLC - Wastewater Division Plent Additions and Retirements

Exhibit Rejainder Schedule B-2 Page 3.6 Witness: Boursess

	NARUO	i						20	no				
ine	Accoun		Allowed	Plant	_	Adjusted	Plent		Adjusted				
¥0.	No.		Deprec.	Additions	Plant	Plant	Retirements	Retirement	Plant	Salvage	Depreciation	Plent	Accum.
Y	140.	Description	Rate	(Per Books)	Adiatments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Depres
1	351	Organization	0.00%										
2	352	Franchise	0.00%			•			•		-		
3	353	Land	0.00%			•			-			-	
4	354	Structures & Improvements	3.33%	ļ		•			-		•	105,000	
5	355	Power Generation	5.00%			•			-		1.876	56,350	12,
6	360	Collection Sewer Forced	2.00%			•					144	2,879	9
7	361	Collection Sewers Gravity	2.00%			•			•		-		
	362	Special Collecting Structures	2.00%			•			-		5,211	260,553	33,6
9	363	Customer Services	2.00%			-			-		•	-	
0	364	Flow Measuring Devices	10,00%			-			•		1,208	60,375	7,6
D	365	Flow Measuring Installations	10,00%			-			•		-	•	
0	366	Reuse Services	2.00%			-			•		•	-	
2	367	Reuse Meters And Installation	8,33%			•			-		69	3,450	
3	370	Receiving Wells	3,33%			-			-		, -	-	
4	371	Pumping Equipment	12,50%						•		-	-	
5	374	Reuse Distribution Reservoirs	2.50%			•			-		•		
6	375	Reuse Trans. and Dist. System	2.50%						•		-	-	
7		Treatment & Disposal Equipment	5,00%			•			-		-	•	
8		Plant Sewers	5.00%						•		45,200	903,992	291,0
9	382	Outfall Sewer Lines	3,33%			•			•		•		
0	389	Other Sewer Plant & Equipment	6.67%			•			•		-	•	
1		Office Furniture & Equipment	6.67%						•			•	-
2		Computers and Software	20.00%			-			•		170	2.552	4
3	391	Transportation Equipment	20.00%			•			•		•	-	
•	392	Stores Equipment	4.00%			•			-		-	-	
5	393	Tools, Shop And Garage Equip	5.00%			•			-		•	-	-
,		aboratory Equip	10.00%			•			-		•	-	
;	395	Power Operated Equipment	5.00%						-		•	•	
3	396	Communication Equip	10,00%			•			•		-	-	
•	397	Mecellaneous Equipment	10,00%								•		. •
;	396	Other Tangible Plant	10.00%						•			-	-
1		1									•	-	-
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		1	- 1						•		-	-	
		i .	1						•			•	
		1				-			•		-	-	-
		ı	j			-			•		-	-	
	1	OTALS	-								53,878	1,395,151	347,23

Utility Source, LLC - Wastewater Division Plant Additions and Retirements

Exhibit Rejoinder Schedule 8-2 Page 3.7 Afthess: Boursess

	NARU				_			~					
			Allowed	Plant		Adjusted	Plant		711				
	Accou		Deprez.	Additions	Plent	Plent		_	Adjusted				
e.	No.	Description	Rate	(Per Books)	Adjustments		Retirements	Retirement	Plant	Salvage	Depreciation	Plant	Accur
				THE PERSONS		<u>Additions</u>	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	
,	351	Organization	0.00%	Ī							***************************************	ACCRECATE VALUE OF THE PARTY OF	Depti
!	352	Frenchise	0.00%			-							
	353	Lend	0.00%			-					-	-	
	354	Structures & Improvements				•			-		•		
	355	Power Generation	3.33%			-						185,000	
	360	Collection Sewer Forced	5.00%			-					1,676	58,350	10
	361	Collection Sewers Bravity	2.00%			-			_		144	2,879	•
	362		2.00%			-					•	-	
	363	Special Collecting Structures Customer Services	2.00%			-			•		5,211	260,553	36
	364		2.00%			-			-			•	
		Flow Measuring Devices	10.00%						•		1,208	60,376	9
	365	Flow Measuring Installations	10.00%			_			•		-	-	
	366	Reves Services	2.00%			_			•				
	367	Reuse Meters And Installation	8.33%						•		69	3,450	
	370	Receiving Wells	3.33%						•		-		
	371	Pumping Equipment	12.50%			-			•				
	374	Reuse Distribution Reservoirs	2.50%						•				
	375	Reuse Trans. and Dist System	2.50%			-			•			-	
	360	Freatment & Disposal Equipment	5.00%			•			•				
	381	Plant Sewere	5,00%			-			-		45,200	903,882	336,
	382	Outfall Sewer Lines	3.33%			•			-				330,
	389	Other Sewer Plant & Equipment	6.67%			•							
	390	Office Furniture & Equipment	5.67%			•			-				
		Computers and Softwere	20.00%			-			-		170	2.552	
		Transportation Equipment	20.00%			•						2,352	1
		Stores Equipment	4.00%			•						•	
		Tools, Shop And Garage Equip	5.00%			•					•	•	
	394	Laboratory Equip	10.00%			•					•	-	
		Power Operated Equipment				•					-	•	
		Communication Equip	5.00%			•					•	-	
	397	Mecelleneous Equipment	10.00%			-			_		•	•	
		Other Tengible Plant	10.00%			-					•	• .	
		O see . rengine Frank	10.00%			-					•	•	
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		i	1						•		•		
			, ,			•			-			-	
_	1	OTALS											
											53,678	1,395,151	401,11

Exhibit Rejoinder Schedule 8-2 Page 3.8 Witness: Boursess

										_		AAMJESE: ROFLE	
	NARU	c	Allowed	Plant				20	112				
Line	Accou		Depres.	Additions		Adjusted	Plent		Adjusted				
No.	No.	Description	Bate	(Per Books)	Plent	Plant	Retirements	Retirement	Plant	Salvage	Depreciation	Plant	Accum
			I Same	ILEA GOOGE	<u>Adiustments</u>	Additions	(Per Books)	Adjustments	Retirements	A/D, Only	(Celculated)	Belence	Deprec
1	351	Organization	0.00%	f									
2	352	Franchise	0.00%	i		•					-	-	
3	353	Land	0.00%			•			•		-	-	
4	354	Structures & Improvements	3,33%			-					-	105,000	
5	356	Power Generation	5.00%			•			•		1,876	56,360	15,8
6	360	Collection Sewer Forced	2.00%			•			-		144	2,879	1,2
7	361	Collection Sewers Gravity	2.00%			-			-				
8	362	Special Collecting Structures	2.00%			•			•		5,211	260,653	44.2
9	363	Customer Services	2.00%						•			-	
10	364	Flow Measuring Devices	10,00%			•			•		1,208	60,375	10.2
10	365	Flow Measuring Installations	10.00%			-			-		•	-	
10	366	Reuse Services	2.00%			-			•			-	
2	367	Reuse Meters And Installation	8.33%			•			-		69	3,450	1.0
3	370	Receiving Wells	3.33%			•			-				
4	371	Pumping Equipment	12.50%			•			•		-	-	
5	374	Reuse Distribution Reservoirs	2.50%			-			-			-	
6	375	Reuse Trans. and Dist. System	2.50%			•			-			-	
7	380	Treatment & Disposal Equipment	6.00%			•			•				
e	381	Plant Sawers	6,00%			-			•		45,200	903,992	381,4
9	382	Outfell Sewer Lines	3,33%			•			•		-	_	
0	389	Other Sewer Plant & Equipment	6.67%			•			•		-		
1	390	Office Furniture & Equipment	6.67%	1,698					•		•		
2	390.1	Computers and Software	20,00%	421		1,698			•		227	4,251	83
3		Transportation Equipment	20.00%	741		421			-		42	421	-
•		Stores Equipment	4.00%			•			•			-	
5		Tools, Shop And Garage Equip	5.00%			-							
3	394	Laboratory Equip	10.00%			-			•			_	
3	395	Power Operated Equipment	5,00%			-			-				
3		Communication Equip	10.00%			-			-			-	
5		Miscellaneous Equipment	10.00%			-			-		-		
3		Other Tangible Plant	10.00%			•			-				
,		The state of the s	10.004			-			•				
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			- 1			•					-		•
						-			-				:
		TOTALS	<u> </u>									-	•
				2,119		2,119			•		53,977	1,397,271	455,092

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 2

Exhibit Rejoinder Schedule B-2 Page 4 Witness; Bourassa

Line		Acc	urnulated Depres	ietion					
No.						Adjustments			
1				A	B	<u>C</u>	D	E	
2				Adjustments			-	-	Rebuttal
3			Adjusted	Required to	Intentionally	Intentionally	Intentionally	Intentionally	Adjusted
5	Acct.		Accum.	Reconcile to	Left	Left	Left	Left	Accum.
6	<u>No.</u> 351	Description	Depr.	Reconstruction	Blank	Blank	Biank	Blank	Depr.
7	352	Organization Cost Franchise Cost	•	•					
8	352	Land and Land Rights	•	•					•
9	354	Structures & Improvements	15,950	-					•
10	355	Power Generation Equipment	1,224	•					15,950
11	360	Collection Sewers - Force		•					1,224
12	361	Collection Sewers - Gravity	44.294	-					•
13	362	Special Collecting Structures	10,264	-					44,294
14	363	Servcies to Customers	10,264	•					10,264
15	364	Flow Measuring Devices	1.001	•					•
16	365	Flow Measuring Installations	1,001	•					1,001
17	366	Reuse Services	•	-					• .
18	367	Reuse Meters and Meter Installations	•	•					•
19	370	Receiving Wells	•	•					-
20	371	Pumping Equipment	381,495	•					
21	374	Reuse Distribution Reserviors	301,403	•					381,495
22	375	Reuse Transmission and Distribution		•					-
23	380	Treatment & Disposal Equipment	837	(14)					
24	361	Plant Sewers	-	42					823
25	382	Outfall Sewer Lines							42
26	369	Other Plant & Misc Equipment	-	-					-
27	390	Office Furniture & Equipment							•
28	390.1								-
29	391	Transportation Equipment							•
30	392	Stores Equipment							-
31	393	Tools, Shop & Garage Equipment							•
32	394	Laboratory Equipment							-
33	395	Power Operated Equipment							•
34	396	Communication Equipment							•
35	397	Miscellaneous Equipment							•
36	396	Other Tangible Plant	_						•
37		TOTALS	455,064	\$ 28 5		. 2	<u> </u>	\$	\$ 455,092
38						•	•	•	÷ +50,002
39	Accumu	lated Depreciation per Books							\$ 455,064
40		•						-	4 455,004
41	Increase	(decrease) in Accumulated Depreciatio	n						\$ 28
42								-	20
43	Adjustm	ent to Accumulated Depreciation							\$ 28
44								•	7 20
45	SUPPO	RTING SCHEDULES							
46	B-2, pag								
47									

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment Number 2 -A

Exhibit Rejoinder Schedule B-Page 4.1 Witness: Bourassa

Line					
<u>No.</u>					
1	Recond	cilation to Reconstructed Accumulated	<u>Depreciation</u>		
2				Accumulated	
3			Adjusted	Depreciation	
4	Acct.		Accumulated	Per Plant	Adjustment
5	No.	<u>Description</u>	<u>Depreciation</u>	Reconstruction	Required
6	351	Organization Cost	-	-	-
7	352	Franchise Cost	-	-	-
8	353	Land and Land Rights	-	-	-
9	354	Structures & Improvements	15,950	15,950	-
10	355	Power Generation Equipment	1,224	1,224	•
11	360	Collection Sewers - Force	-	-	-
12	361	Collection Sewers - Gravity	44,294	44,294	•
13	362	Special Collecting Structures	10,264	10,264	-
14	363	Servoies to Customers	•	•	-
15	364	Flow Measuring Devices	1,001	1,001	•
16	365	Flow Measuring Installations	•	-	-
17	366	Reuse Services	•	-	-
18	367	Reuse Meters and Meter Installation	•	-	•
19	370	Receiving Wells	•	-	•
20	371	Pumping Equipment	381,495	381,495	•
21	374	Reuse Distribution Reserviors	•	-	-
22	375	Reuse Transmission and Distributio	•		•
23	380	Treatment & Disposal Equipment	837	823	(14)
24	381	Plant Sewers	•	42	42
25	382	Outfall Sewer Lines	•	-	-
26	389	Other Plant & Misc Equipment	-	•	-
27	390	Office Furniture & Equipment	-	-	-
28	390.1	· • · · · · · · · · ·	-	-	-
29	391	Transportation Equipment	•	-	•
30	392	Stores Equipment	*		
31	393	Tools, Shop & Garage Equipment	-	-	-
32	394	Laboratory Equipment	•	-	•
33	395	Power Operated Equipment	•	•	•
34	396	Communication Equipment	~	-	•
35	397	Miscellaneous Equipment	•	•	•
36	398	Other Tangible Plant	455.064	¢ 455,000	\$ 28
37 38		TOTALS	455,064	\$ 455,092	\$ 28
38 39					
39		DTILLO - 011501 11 5			

SUPPORTING SCHEDULE B-2, pages 3.2 - 3.8

40 41 42

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012

Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit Rejoinder Schedule B-2 Page 5.0 Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

140.						
1						
2						
3			Gross	Accumulated		
4			CIAC	Amortization		
5	Computed balance at end of test year	\$	197,973	\$	86,715	
6					•	
7	Adjusted balance at end of test year	\$	197,973	\$	86,711	
8						
9	Increase (decrease)	\$	-	\$	4	
10						
11						
12	Adjustment to CIAC/AA CIAC	_\$		\$	(4)	
13	Label		3a		3b	
14						

SUPPORTING SCHEDULES

E-1

B-2, page 5.1

Line

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Contributions-in-aid of Construction (CIAC)

Line

Exhibit Rejoinder Schedula B-2 Page 5.1 Witness: Bourassa

No.	
1	
2	
3	
4	
5	CIAC
6	_
7	Amortization Decision No. 70140
8	Amortization Rate
9	Amortization (1/2 yr convention)
10	Accumulated Amortization
11	
12	Net CIAC
13	
14	
15	
16	
17	
18	
19	
20	CIAC
21	one.
22	
23	
24	Amortization Rate
25	Amortization (1/2 yr convention)
26	Accumulated Amortization
27	· · · · · · · · · · · · · · · · · · ·
28	Net CIAC
29	· - · · · ·
30	

	2006		2007		20	800	2009	
Balance 12/31/2005	Additions	Balance 12/31/2006	Additions	Balance 12/31/2007	Additions	Balance 12/31/2008	Additions	Balance 12/31/2009
197,973		197,973		197,973		197,973		197,973
12,425		4.16% 8,240 20,665		4.16% 8,240 28,906		4.14% 8,203 37,108		4.18% 8,268 45,376
185,548		177,308		169,067		160,865		152,597

20	10	20	11	2012			
Additions	Balance 12/31/2010	Additions	Balance 12/31/2011	Additions	Balance 12/31/2012		
-	197,973		197,973	•	197,973		
	4.18% 8,268 70,178		4.18% 8,268 78,446		4,189 8,269 86,715		
	127,795		119,527	· · · · · · · · · · · · · · · · · · ·	111,258		

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Original Cost Rate Base Proforma Adjustments Adjustment 4 Customer Deposits

Exhibit Rejoinder Schedule B-2 Page 6 Witness: Bourassa

	<u>Customer Deposits</u>		
Line			
<u>No.</u>			
1			
2 3			
3			
4	Staff recommended balance	\$	5,065
5			
6	Book balance at end of test year	\$	-
7	·		
8	Increase (decrease)	\$	5,065
9	,	Ψ	3,003
10			
11			
12			
13			
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	Testimony		
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32	•		
33			
34			
35			

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012

Computation of Working Capital

Exhibit

Rejoinder Schedule B-5 Page 1

RECAP SCHEDULES: B-1

Witness: Bourassa

Line No. 1 2 3 4 5 6 7	Cash Working Capital (1/8 of Allowance Operation and Maintenance Expense) Pumping Power (1/24 of Pumping Power) Purchased Water (1/24 of Purchased Wate Prepaid Expenses	\$	16,175 1,092 527
8			
9	Total Working Capital Allowance	\$	17,795
10			
11			
12	Working Capital Requested	\$	
13			
14			
15 16			
17		A	
18	Total Operating Expense		ed Test Year
19	Less:	\$	202,851
20	Income Tax	s	(15,616)
21	Property Tax	J	4,401
22	Depreciation		45,791
23	Purchased Water		12,659
24	Pumping Power		26,213
25	Allowable Expenses	\$	129,403
26	1/8 of allowable expenses	\$	16,175
27	•		,
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDUL	<u>.ES:</u>

SUPPORTING SCHEDULES: E-1

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Income Statement

Exhibit Rejoinder Schedule C-1 Page 1 Witness: Bourassa

Line <u>No.</u> 1	Parantas	,	est Year Adjusted <u>Results</u>	£	<u>Adiustment</u>		Rebuttal Test Year Adjusted Results		Proposed Rate Increase		Rebuttal Adjusted with Rate Increase
2	Revenues Flat Rate Revenues	\$		\$		\$		\$		\$	
3	Unmetered Water Revenues	J	116,023	Ψ	-	Φ	116,023	Φ	209,436	Φ	325,458
4	Other Water Revenues		5,261		(1,820)		3,441		209,430		3,441
5	Other Anater Meadures	\$	121,284	-\$	(1,820)	•	119,464	•	209,436	\$	328,900
6	Operating Expenses	Ψ	121,204	4	(1,020)	4	115,404	J	209,430	Φ	320,500
7	Salaries and Wages	s	_			\$				\$	
8	Purchased Water	4	-		-	Ψ	•			•	•
9	Purchased Power		26,213		-		26 242				-
10	Sludge Removal		12.659		•		26,213 12,659				26,213
11	Chemicals		5,400		•		5,400				12,659
12	Materials and Supplies		7.187		-		•				5,400
13			7,167 2,446		•		7,187				7,187
14	Office Supplies and Expense Contractual Services - Accounting		2,446 20,135		-		2,446				2,446
15	Contractual Services - Accounting Contractual Services - Professional		•		-		20,135				20,135
16	Contractual Services - Professional Contractual Services - Maintenance		1,920		-		1,920				1,920
17	Contractual Services - Maintenance Contractual Services - Other		46.650		•		40.050				40.050
18	Water Testing		5,669		8.858		46,650				46,650
19	Rents		•		0,000		14,527				14,527
			- 250		(4.750)		4.500				
20	Transportation Expenses		3,250		(1,750)		1,500				1,500
21 22	Insurance - General Liability		2,186		-		2,186				2,186
	Insurance - Health and Life		-		-		•				•
23 24	Reg. Comm. Exp Other		10.000		- 0.07		40.007				
24 25	Reg. Comm. Exp Rate Case		10,000		6,667		16,667				16,667
25 26	Miscellaneous Expense		13,152		(2,366)		10,786				10,786
26 27	Bad Debt Expense				-						
	Depreciation and Amortization Expense		45,744		48		45,791				45,791
28	Taxes Other Than Income		4 470		-						
29 30	Property Taxes		4,476		(75)		4,401		2,576		6,977
31	Income Tax		(13,545)		(2,071)		(15,616)		32,628		17,012
	Takat Onesakina Fusansas	_	100.544	-		_		_			
32 33	Total Operating Expenses	\$	193,541 (72,257)	<u> </u>	9,310			\$	35,204	\$	238,056
33 34	Operating Income	2	(12,251)	2	(11,130)	2	(83,387)	\$	174,232	\$	90,844
35	Other Income (Expense)										
	Interest Income		-		-		-				•
36 37	Other income		•		•		-				-
	Interest Expense		•		•		•				•
38	Other Expense		-		-		-				-
39	T-1-1-0441			_		_					
40	Total Other Income (Expense)	\$	(70.057)	\$		\$		\$		\$	
41	Net Profit (Loss)	\$	(72,257)	\$	(11,130)	\$	(83,387)	\$_	174,232	\$	90,844
42											
43	SUPPORTING SCHEDULES:								CAP SCHED	<u>VLE</u>	<u>\$:</u>
44	C-1, page 2							A-1			
45	E-2										
46											

Utility Source, LLC - Wastewater Division Test Year Ended December 31, 2012 Income Statement Exhibit Rejoinder Schedule C-1 Page 2.1 Witness: Bourasss

			BEL>>>> Test Year	1	2		3 Rate		4	5	•	Z
Line			Adjusted		Property		Case		evenue	Water	Auto	Telephone
No.			Results	Depresiation	Taxes		Expense		iustment	Testing	Expense	Expense
1	Ravenues		TYPESHI	D COLUMNIA D	- AMER		Security 2	1,000	THE REAL PROPERTY.	1444		- Contract
2	Flat Rate Revenues	5										
3	Measured Revenues	•	116,023									
4	Other Water Revenues		5,261						(1,820)			
5		\$	121,284	s .	\$ -	- 5		-	(1,820) \$		\$ -	•
6	Operating Expenses	•	,	•	•	-		•	1.1		•	
7	Salaries and Wages											
8	Purchased Water	•										
9	Purchased Power		26,213									
10	Sludge Removal		12,659									
11	Chemicals		5,400									
12	Materials and Supplies		7,187									
13	Office Supplies and Expense		2,446									
14	Contractual Services - Accounting		20,135									
15	Contractual Services - Professional		1,920									
16	Contractual Services - Maintenance		.,									
17	Contractual Services - Other		46,650									
18	Water Testing		5,669							8.856		
19	Rents		-,							-1		
20	Transportation Expenses		3,250								(1,750)	
21	Insurance - General Liability		2,186									
22	Insurance - Health and Life		-,,,,,									
23	Reg. Comm. Exp Other											
24	Reg. Comm. Exp Rate Case		10,000				6,667					
25	Miscellaneous Expense		13,152				-,					(2,366)
26	Bad Oebt Expense											··,
27	Deprec, and Amort, Exp.		45,744	48								
28	Taxes Other Than Income											
29	Property Taxes		4,476		(7:	5)						
30	Income Tax		(13,545)		•	•						
31	***************************************		(10,010)									
32	Total Operating Expenses	-	193,541	\$ 48	\$ 175	5) \$	6,567	3	· 5	8,858	\$ (1,750)	\$ (2,366)
33	Operating Income		(72,257)		\$ 7:	5 \$	(6,667)	\$	(1.820) \$	(6,858)		
34	Other Income (Expense)	-	,	. , ,								
35	Interest Income		-									
36	Other income											
37	Interest Expense											
36	Other Expense		-									
39												
40	Total Other Income (Expense)	3		\$ -	\$	- 5		\$	- \$		\$:	\$
41	Net Profit (Loss)	-	(72,257)	\$ (48)	\$ 7	5 \$	(6,667)	\$	(1,820) \$	(6,858)	\$ 1,750	\$ 2,366
42	••	-				_						
43	SUPPORTING SCHEDULES:											
44	C-?											
45	E-2											

Utility Source, LLC - Wastewater Division Test Year Ended December 31, 2012 Income Statement

Exhibit Rejoinder Schedule C-1 Page 2.2 Witness: Bourassa

Line		intentionally	2 Intentionally	<u>10</u> Intentionally	11	Rebuttal Test Year	Proposed	Rebuttal Adjusted
No.		Let	Lef	Left	Income	Adjusted	Rate	with Rate
1	Revenues	Blank	<u>Glank</u>	Blank	Taxes	Results	Increase	increase
2	Flat Rate Revenues							·
3	Measured Revenues					\$ -	4	
4	Other Water Revenues					116,023	209,436	325,458
5		3				3,441		3,441
6	Operating Expenses	•	• -	\$	5 - :	119,464	\$ 209,435 \$	
7	Salaries and Wages							
8	Purchased Water						\$	
9	Purchased Power					·		•
10	Sludge Removal					26,213		26,213
11	Chemicals					12,659		12,659
12	Materials and Supplies					5,400		5,400
13	Office Supplies and Expense					7,187		7.187
14	Contractual Services - Accounting					2,446		2,446
15	Contractual Services - Professional					20,135		20,135
16	Contractual Services - Maintenance					1,920		1,920
17	Contractual Services - Other					46,650		-
18	Water Testing					14,527		46,650
19	Rents					14,527		14,527
20	Transportation Expenses					1.500		
21	Insurance - General Liability					2,186		1,500
22	Insurance - Health and Life					2,100		2,186
23 24	Reg. Comm. Exp Other							•
25	Reg. Comm. Exp Rate Case					16,667		
25 26	Miscellaneous Expense					10,786		16,667
27	Bad Debt Expense					10,100		10,786
28	Deprec, and Amort, Exp. Taxes Other Than Income					45,791		45,791
29						10,701		45,781
30	Property Taxes					4.401	2.576	6,977
31	HICOTHE 1 AX				(2,071)	(15,616)	32,628	17,012
	Total Operating Expenses	•				(10,010)		17,012
	Operating Expenses	<u> </u>		\$ -	\$ (2,071) \$	202,851 \$	35.204 \$	238,056
	Other income (Expense)	\$ - \$	•	\$ - ;	\$ 2,071 \$	(83,387) \$		90,844
35	Interest Income						,	50,017
36	Other income					-		-
37	Interest Expense							
38	Other Expense							
39						-		_
40	Total Other Income (Expense)		·					
41 1	Vet Profit (Loss)	} • •		3 . 1	. 3	. \$	- 5	· ·
42				3 - 1	2,071 \$	(83,387) \$	174,232 \$	90,844
43	SUPPORTING SCHEDULES:							
44	C-2					RE	CAP SCHEDUL	ES:
45	E-2					C	-1, page 1	_

Exhibit Rejoinder Schedule C-2 Page 1 Witness: Bourassa

Line <u>No.</u>		1	Adjustmer 2	nts to Revenues and	d Expenses	<u>5</u>	<u>6</u>	
1 2 3		Depreciation Expense	Property <u>Taxes</u>	Rate Case Expense	Revenue Adjustment	Water Testing	Auto Expense	Subtotal
4	Revenues	-	•	•	(1,820)			(1,820)
6 7	Expenses	48	(75)	6,667		8,858	(1,750)	13,747
8 9 10	Operating Income	(48)	75	(6,667)	(1,820)	(8,858)	1,750	(15,567)
11 12 13	Interest Expense Other						-	-
14 15	Income / Expense							•
16 17	Net Income	(48)	75	(6,667)	(1,820)	(8,858)	1,750	(15,567)
18 19				_	_			
20		_		its to Revenues and				
21		<u>7</u>	8	9	<u>10</u>	<u>11</u>		<u>Subtotal</u>
22		* ••	Intentionally	Intentionally	Intentionally	• • •		
23 24		Telephone	Left	Left	Left	Income		
24 25	Revenues	Expense	Blank	<u>Blank</u>	<u>Blank</u>	Taxes		(4.900)
26	Meverides	_	-	•	•	•		(1,820)
27 28	Expenses	(2,366)		-		(2,071)	-	9,310
29 30 31	Operating Income	2,366	-	-	-	2,071	-	(11,130)
32 33	Interest Expense							
34	Other							
35 36	Income / Expense							· •
37 38	Net Income	2,366	_	-		2,071		(11,130)
39 40								

Exhibit Rejoinder Schedule C-2 Page 2 Witness: Bourassa

Depreciation Expense

Line <u>No.</u>							
1							
2					Adjusted		
3	Acct.		Original	Non-depreciable/	Original	<u>Proposed</u>	<u>Depreciation</u>
4	<u>No.</u>	<u>Description</u>	Cost	Fully Depreciated	Cost	Rates	<u>Expense</u>
5	351	Organization Cost	-	•	-	0.00%	•
6	352	Franchise Cost	-	•	•	0.00%	-
7	353	Land and Land Rights	105,000	(105,000)	-	0.00%	•
8	354	Structures & Improvements	56,350		56,350	3.33%	1,876
9	355	Power Generation Equipment	2,879		2,879	5.00%	144
10	360	Collection Sewers - Force	-		-	2.00%	•
11	361	Collection Sewers - Gravity	260,553		260,553	2.00%	5,211
12	362	Special Collecting Structures	•		-	2.00%	-
13	363	Servoies to Customers	60,375		60,375	2.00%	1,208
14	364	Flow Measuring Devices	•		•	10.00%	-
15	365	Flow Measuring Installations	•		-	10.00%	-
16	366	Reuse Services	3,450		3,450	2.00%	69
17	367	Reuse Meters and Meter Installations				8.33%	
18	370	Receiving Wells	-		-	3.57%	
19	371	Pumping Equipment	-		-	10.00%	•
20	374	Reuse Distribution Reserviors	-		-	2.50%	
21	375	Reuse Transmission and Distribution	-		-	2.00%	_
22	380	Treatment & Disposal Equipment	903,992		903.992	5.00%	45,200
23	381	Plant Sewers			-	5.00%	,200
24	382	Outfall Sewer Lines				3.33%	
25	389	Other Plant & Misc Equipment			-	6.67%	
26	390	Office Furniture & Equipment	4,251		4,251	6.67%	284
27	390.1	Computers & Software	421		421	20.00%	84
28	391	Transportation Equipment			-	20.00%	
29	392	Stores Equipment	_		_	4.00%	-
30	393	Tools, Shop & Garage Equipment	_		-	10.00%	_
31	394	Laboratory Equipment			_	10.00%	-
32	395	Power Operated Equipment			_	5.00%	
33	396	Communication Equipment			_	10.00%	
34	397	Miscellaneous Equipment	_		-	10.00%	-
35	398	Other Tangible Plant	-		•	10.00%	-
36	350	Other rangible mant	•		•	10,0076	-
37							
38						40.009/	
39		TOTALS	\$ 1,397,271	\$ (105,000)	e 4 000 074	10.00%_	\$ 54.075
40		IUIALS	¥ 1,397,271	3 (100,000)	\$ 1,292,271		\$ 54,075
41					0 0140	A	
					Gross CIAC	Amort. Rate	
42		ortization of Contributions			\$ 197,973	4.1845%	\$ (8,284)
43	Total Dep	preciation Expense					\$ 45,791
44							
45	Adjusted	Test Year Depreciation Expense				_	45,744
46							
47	Increase	(decrease) in Depreciation Expense					48
48						-	
49	Adjustme	ent to Revenues and/or Expenses					\$ 48
50						-	
51	SUPPOR	TING SCHEDULE					
52	B-2, page				*Fully Depreciated	ı	

Exhibit Rejoinder Schedul Page 3 Witness: Bourassa

Property Taxes

Line			Test Year		Company
No.		:	as adjusted		commended
1	Company Adjusted Test Year Revenues	\$	119,464	\$	119,464
2	Weight Factor	•	2	•	2
3	Subtotal (Line 1 * Line 2)		238,928		238,928
4	Company Recommended Revenue		119,464		328,900
5	Subtotal (Line 4 + Line 5)		358,391		567,827
6	Number of Years		3		3
7	Three Year Average (Line 5 / Line 6)		119,464		189,276
8	Department of Revenue Mutilplier		2		2
9	Revenue Base Value (Line 7 • Line 8)		238,928		378,551
10	Plus: 10% of CWIP (intentionally excluded)		-		-
11	Less: Net Book Value of Licensed Vehicles		421		421
12	Full Cash Value (Line 9 + Line 10 - Line 11)		238,507		378,130
13	Assessment Ratio		20.0%		20.0%
14	Assessment Value (Line 12 * Line 13)		47,701		75,626
15	Composite Property Tax Rate - Obtained from ADOR		9.2262%		9.2262%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$	4,401	\$	6,977
17	Tax on Parcels		•		•
18	Total Property Taxes (Line 16 + Line 17)	\$	4,401		
19	Adjusted Test Year Property Taxes	\$	4,476		
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$	(75)		
21					
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)			\$	6,977
23	Company Test Year Adjusted Property Tax Expense (Line 18)			\$	4,401
24	Increase in Property Tax Due to Increase in Revenue Requirement			\$	2,576
25				No. Acres	
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 2	4)		\$	2,576
27	Increase in Revenue Requirement			\$	209,436
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)			1.23016%
29					
30					
31					
32					
33					

Exhibit Rejoinder Schedule C-2 Page 4 Witness: Bourassa

Rate Case Expense

Line <u>No.</u> 1		
2		
3 4	Estimated Rate Case Expense	\$ 50,000
5 6	Estimated Amortization Period in Years	3
7 8	Annual Rate Case Expense	\$ 16,667
9 10	Adjusted Test Year Rate Case Expense	\$ 10,000
11	Increase(decrease) Rate Case Expense	\$ 6,667
13	Adjustment to Revenue and/or Expense	\$ 6,667
14 15		
16	Reference	
17	Testimony	
18		
19		
20		

Exhibit Schedule C-2 Page 5 Witness: Bourassa

Revenue Adjustment

Line			
No.			
1			
2	Revenue Adjustment	\$	(1,820)
3			
4			
5 6	Total Bassassa from Annualization		(4.000)
	Total Revenue from Annualization	\$	(1,820)
7			
8	Adjustment to Develop and the Evenes	•	(4.000)
9	Adjustment to Revenue and/or Expense	-	(1,820)
10	S. (
11	Reference		
12	Staff Adjustment # 1		
13	•		
14			
15 16			
17 18			
19			
19			
20			

Exhibit Schedule C-2 Page 6 Witness: Bourassa

Water Testing

Line			
No.			
1			
2	Staff Recommended Water Testing Expense	\$	14,527
3		_	
4	Adjuste Test Year Water Testing Expense	\$	5,669
5			
6	Adjustment to purchased power expense (rounded)	\$	8,858
7			
8			
9	Adjustment to Revenue and/or Expense		8,858
10			
11	Reference		
12	Staff Adjustment #3		
13			
14			
15			
16			
17			
18	•		
19			
20			

Exhibit Schedule C-2 Page 7 Witness: Bourassa

Auto Expense

Line			
<u>No.</u>			
1			
2		_	
	Test Year Auto Expense	\$	1,500
4			
5	Staff Recommended Auto Expense		3,250
6			
7	Adjustment to Revenues		(1,750)
8			
9			
10	Adjustment to Revenue and/or Expense		(1,750)
11			
12	Reference		
13	Staff Adjustment #3		
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			

Exhibit Schedule C-2 Page 8 Witness: Bourassa

Telephone Expense

Line		
No.		
1		
2	Staff Recommended Telephone Expense	\$ 2,366
3	•	
4	Adjusted Test Year Telephone Expense	4,732
5		
6	Adjustment to Revenues	\$ (2,366)
7		
8		
9	Adjustment to Revenue and/or Expense	\$ (2,366)
10		
11	Reference	
12	Staff Adjustment #4	
13		
14		
15		
16		
17		
18		
19		
20		

Intentionally Left Blank

Exhibit Schedule C-2 Page 9 Witness: Bourassa

Intentionally Left Blank

Exhibit Schedule C-2 Page 10 Witness: Bourassa

Intentionally Left Blank

Exhibit Schedule C-2 Page 11 Witness: Bourassa

Exhibit Rejoinder Schedule C-2 Page 12 Witness: Bourassa

Line					
No.					
1	Income Taxes			_	
2 3			Test Year		est Year
3		-	t Present Rates		posed Rates
4	Compauted Income Tax	\$	(15,616)	\$	17,012
5	Test Year Income tax Expense		(13,545)		(15,616)
6	Adjustment to Income Tax Expense	<u>\$</u> _	(2,071)	\$	32,628
7					
8					
9					
10					
11					
12					
13	SUPPORTING SCHEDULE				
14	C-3, page 2				
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26 27					
21 28					
20 29					
30					
JU					

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012 Computation of Gross Revenue Conversion Factor

Exhibit Rejoinder Schedule C-3 Page 1 Witness: Bourassa

		Percentage of
		Incremental
Line		Gross
<u>No.</u>		<u>Revenues</u>
1 2	Combined Federal and State Effective Income Tax Rate	15.773%
3	Property Taxes	4.0200/
4	Topony Taxos	1.036%
5		
6	Total Tax Percentage	16.809%
7		
8 9	Operating Income % = 100% - Tax Percentage	83.191%
10		
11		
12		
13	= Gross Revenue Conversion Factor	-
14	Operating Income %	1.2021
15		
16		
17		
18 19		
20		
21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27		
28 29		
30		
31		
32		
33		
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35		
36 37		
37 38		
39		
40		

Utility Source. LLC - Wastewater Division Test Year Ended December 31, 2012

Exhibit Rejoinder Schedule C-3 Page 2 Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line <u>No.</u>	<u>Description</u>	(A)	(B)	(C)	(D)	(E)	(F)
1 2 3 4 5 6	Cabulation of Gross Revenue Convertion Factor: Revenue Uncollectible Factor (Une 11) Revenues (L1 - L2) Combined Federal and State Income Tax and Property Tax Rate (Line 23) Subtotal (L3 - L4) Revenue Conversion Factor (L1 / L5)	100,000% 0,000% 100,000% 16,8091% 33,190% 1,20268					
7 8 9 10	Calculation of Uncollectible Factor. Unity Combined Federal and State Tax Rate (L17) One Minus Combined Income Tax Rate (L7 - L8) Uncollectible Rate Uncollectible Factor (L9 * L10)	100,0000% 15,7730% 84,2270% 0,0000%	<u> </u>	<u>.</u>			
13 14 15	<u>Calculation of Effective Tax Rate;</u> Operating Income Before Taxes (Arizona Taxable Income) Arizona State Income Tax Rate Fadera Taxable Income (L12 - L13) Applicable Fadera Income Tax Rate (L55 Col F) Effective Faderal Income Tax Rate (L14 x L15) Combined Faderal and State Income Tax Rate (L13 + L16)	100,0000% 2,8074% 97,1926% 13,3401% 12,9656%	<u> </u>	1			
19 20 21 22	Calculation of Effective Property Tax Factor Unity Combined Federal and State Income Tax Rate (L17) One Minus Combined Income Tax Rate (L18-L19) Property Tax Factor Effective Property Tax Factor (L20*L21) Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	100.0000% 15.7730% 84.2270% 1.2302%		15.8091%			
25	Required Operating Income Adjusted Test Year Operating Income (Loss) Required Increase in Operating Income (L24 - L25)	\$ 90,844 \$ (83,387)	\$ 174,232				
28	Income Taxes on Recommended Revenue (Col. (F), L52) Income Taxes on Test Year Revenue (Col. (C), L52) Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ 17,012 \$ (15,616)	\$ 32,628				
31 32 33	Recommended Revenue Requirement Uncodecible Rate (Line 10) Uncodecible Expense on Recommended Revenue (L24 * L25) Adjusted Test Year Uncodecible Expense Required Increase in Revenue to Provide for Uncodiccible Exp.	\$ 328,900 0.0000% \$					
36	Property Tax with Recommended Revenue Property Tax on Test Year Revenue Increase in Property Tax Due to Increase in Revenue (L35-L36)	\$ 6,977 \$ 4,401	\$ 2.576				
38	Total Required Increase in Revenue (L26 + L29 + L37)	(A)	\$ 209,436	(C)	(D)	_ IEI	(F)
39	<u>Calculation of Income Tay:</u> Revenue Operating Expenses Excluding Income Taxes		Year	Westewaler \$ 119,464 218,467		ny Recommended	Wastewater \$ 328,900 221,043
42 43 44	Synchronized Interest (L47) Arizona Taxebte Income (L39 - L40 - L41) Arizona State Effective Income Tax Rate (see work papers) Arizona Income Tax (L42 x L43)	\$ (99,003) 2,8074% \$ (2,779)		\$ (99,003) 2,8074% \$ (2,779)	\$ 107,856 2.8074% \$ 3,028		\$ 107,856 2.8074% \$ 3,028
46	Federal Taxable Income (L42- L44) Federal Tax Rate Federal Tax	\$ (96,224) 13,3401% \$ (12,636)		\$ (96,224) 13,3401% \$ (12,836,35)	\$ 104,828 13,3401% \$ 13,984		\$ 104,828 13,3491% \$ 13,984
52 53 54	Total Federal Income Tax Combined Federal and State Income Tax (L35 + L42)	\$ (12,836) \$ (15,616)		\$ (12,836) \$ (15,616)	\$ 13,984 \$ 17,012		\$ 13,984 \$ 17,012
56	COMBINED Applicable Federal Income Tax Rate (Col. (D), L53 - Col. (A), L53 / WASTEWATER Applicable Federal Income Tax Rate (Col. (E), L53 - Col. (B), LWATER Applicable Federal Income Tax Rate (Col. (F), L53 - Col. (C), L53) / (C)	.63] / (Col. [E], L45 - Col. [B], L45)			13.3401%		13.3401%

Calculation of Interest Synchronization:

58 Rate Base

59 Weighted Average Cost of Debt

60 Synchronized Interest (L59 X L60)

1,575,194 \$ 825,856 0.0000% \$ 0.0000%

Utility Source, LLC - Wastewater Division Revenue Summary Test Year Ended December 31, 2012

Exhibit Rejoinder Schedule H-1 Page 1 Witness: Bourassa

Line No. 1 2 3 4 5 6 7	Meter Size 3/4 Inch 3/4 Inch 2 Inch	<u>Classification</u> Residential Commercial Commercial	\$	Total Revenues at Present <u>Rates</u> 92,479 114 23,698	\$	Total Revenues at Proposed <u>Rates</u> 287,729 740 36,829	\$ Dollar <u>Change</u> 195,250 626 13,131	Percent <u>Change</u> 211.13% 547.81% 55.41%	Percent of Present Water Revenues 77.41% 0.10% 19.84%	Percent of Proposed Water <u>Revenues</u> 87.48% 0.22% 11.20%
9	Subtotals of Re	venues	\$	116,291	\$	325,298	\$ 209,007	179.73%	97.34%	98.90%
10	Revenue Annua	alizations:								
11	3/4 inch	Residential	\$	173	\$	741	\$ 567	327.23%	0.15%	0.23%
12										
13		•								
14										
15										
16	Subtotal Reven	ue Annualization		173		741	567	327.23%	0.15%	0.62%
17					_		 			
18		w/ Annualization	\$	116,465	\$	326,039	\$ 209,574	179.95%	97.49%	99.13%
19	Misc Revenues			3,441		3,441	•	0.00%	2.88%	1.05%
20	Reconciling An		_	(442)		(580)	 (138)	31.22%	-0.37%	-0.18%
21	Total Revenues	•	<u>\$</u>	119,464	\$_	328,900	\$ 209,436	175.31%	100.00%	100.00%
22 23										

Utility Source, LLC - Wastewater Division Analysis of Revenue by Detailed Class Test Year Ended December 31, 2012 Exhibit Rejoinder Schedule H-2 Page 1 Witness: Bourassa

Line	Customer Classification	(a) Average Number of <u>Customers</u> at	Average	<u>Avera</u> Present	<u>Bili</u> Proposed	Proposed inc	rease Percent	Percent of
No.	and/or Meter Siz		Consumption	Rates	Rates	Amount	Amount	Customers
1	3/4 Inch Residenti			\$ 24.08	\$ 74.91	\$ 50.83	211.13%	98.77%
2	3/4 Inch Commerc		1,667	9.52	61.66	52.14	547.81%	0.31%
3	2 Inch Commerci	ial 3	115,286	658.29	1,023.04	364.75	55.41%	0.93%
4								
5								
6								
7								
8								
9								
10								
11 12	Takata	324					-	100.000/
	Totals	324					•	100.00%
13	A							
14 15	Actual Year End Number	325						
	of Customers:	323						
16 17								
17								
19								

Utility Source, LLC - Wastewater Division Analysis of Revenue by Detailed Class Test Year Ended December 31, 2012

Exhibit Rejoinder Schedule H-2 Page 2 Witness: Bourassa

Line	ć	Customer Classification	(a) Average Number of <u>Customers</u> at	Median	<u>Medi</u> Present	<u>Bill</u> Proposed	Proposed	ncrease Percent	Percent of
No.		J/or Meter Size	12/31/2012	Consumption	Rates	Rates	<u>Amount</u>	Amount	Customers
1	3/4 Inch	Residential	320	3,500	\$ 20.44	\$ 71.60	\$ 51.16	250.30%	98.77%
2	3/4 Inch	Commercial	1	1,500	\$ 8.57	\$ 60.79	52.23	609.80%	0.31%
3	2 Inch	Commercial	3	65,000	371.15	761.75	390.60	105.24%	0.93%
4									
5									
6									
/									
8 9									
10									
11	Totals		324					•	100.00%
12								•	
13	Actual Year	End Number							
14	of Custome		325						
15			***************************************						
16									
17									
18									

Utility Source, LLC - Wastewater Division Present and Proposed Rates Test Year Ended December 31, 2012

Exhibit Rejoinder Schedule H-; Page 1 Witness: Bourassa

2 5/8 x 3/4 Inch \$ 53.0 3 3/4 Inch - 53.0 4 1 Inch - 265.5 5 1 1/2 Inch - 265.6 6 2 Inch - 424.0 7 3 Inch - - 484.0 8 4 Inch - 1,325.0 - - 1,325.0 9 6 Inch - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - <th>Line <u>No.</u> 1</th> <th>Customer Classification and Meter Size (Residential, Commercial) Monthly Usage Charge for:</th> <th></th> <th>resent Rates</th> <th colspan="3">Proposed Rates</th>	Line <u>No.</u> 1	Customer Classification and Meter Size (Residential, Commercial) Monthly Usage Charge for:		resent Rates	Proposed Rates		
3 3/4 Inch 4 1 Inch 5 11/2 Inch 6 2 Inch 7 3 Inch 8 44.6. 7 3 Inch 8 44.6. 9 6 Inch 9 6 Inch 10 10 10 11 Gallons In Minimum 12 All Meter Sizes 13 13 14 Rate per 1.000 Gallons of Water Usage 15 Residential 16 Commercial and Inclustrial 17 Car washes, laundromats, Commercial, Manufacturing 18 Hotels, Motels 19 Restauarants 19 4.66 19 Restauarants 19 9.46 10 Inclustrial Laundries 10 Inclustrial Laundries 11 Waste haulers 11 Waste haulers 11 Waste haulers 11 Waste haulers 11 Tizo 155.7 15 Mud Sump Waste 15 Saturant Studge 17 Tizo 155.7 18 Mud Sump Waste			\$		\$	53.00	
1 Inch 1 132.5 1 1/2 Inch 1 1/2 Inch 1 1 2 Inch 2 1 1/2 Inch 2 1 1/2 Inch 3 Inch 3 Inch 4 Inch 5 1 1/2 Inch 6 2 Inch 7 3 Inch 8 48.48. 8 48.88. 8 4 Inch 9 6 Inch 1 325.6 10 10 11 Gallons In Minimum 12 All Meter Sizes 13 14 Rate per 1.000 Galtons of Water Usage 15 Residential 1 Commercial and Industrial 1 Car washes, laundromats, Commercial, Manufacturing 2 Car washes, Laundromats, Commercial, Manufac			•			53.00	
5 1 1/2 Inch - 265.5 6 2 Inch - 424.6 7 3 Inch - - 848.0 8 4 Inch - 1,325.0 2,550.0 9 6 Inch - - <t< th=""><td></td><td></td><td></td><td>-</td><td></td><td>132.50</td></t<>				-		132.50	
6 2 Inch 7 3 Inch 8 424.6 7 3 Inch 8 4 Inch 9 6 Inch 1.325.0 9 6 Inch 10 11 Gallons In Minimum 12 All Meter Sizes 13 14 Rate per 1.000 Gallons of Water Usage 15 Residential 16 Commercial and Industrial 17 Car washes, laundromats, Commercial, Manufacturing 18 Hotels, Motels 19 Restauarants 19 46 8.6 19 Restauarants 19 46 8.6 10 Industrial Laundries 10 Industrial Laundries 11 Waste haulers 11 Treatment Plant Studge 12 Mud Sump Waste 13 Treatment Plant Studge 14 8.6 15 8.6 16 9.7 17 1.20 15 9.7 18 Mud Sump Waste	5			-		265.00	
7 3 Inch .		2 Inch		-		424.00	
8 4 Inch 1,325.0 9 6 Inch 2,550.0 10 11 Gallons In Minimum 12 All Meter Sizes				-		848.00	
9 6 Inch 2,650.0 10 11	8			-		1,325.00	
10 Gallons In Minimum		6 Inch				2,650.00	
All Meter Sizes Rate per 1.000 Galfons of Water Usage Residential \$ 5.84 \$. 5.3 Residential \$ 5.84 \$. 5.3 Commercial and Industrial \$ 5.71 5.2 Car washes, laundromats, Commercial, Manufacturing 5.71 5.2 Hotels, Motels 7.66 6.9 Restauarants 9.46 8.6 Restauarants 8.39 7.6 Industrial Laundries 8.39 7.6 Waste haulers 171.20 155.7 Waste haulers 149.80 136.3 Treatment Plant Studge 171.20 155.7 Mud Sump Waste 535.00 486.6 26 27 28 29							
All Meter Sizes Rate per 1.000 Galfons of Water Usage Residential \$ 5.84 \$. 5.3 Residential \$ 5.84 \$. 5.3 Commercial and Industrial \$ 5.71 5.2 Car washes, laundromats, Commercial, Manufacturing 5.71 5.2 Hotels, Motels 7.66 6.9 Restauarants 9.46 8.6 Restauarants 8.39 7.6 Industrial Laundries 8.39 7.6 Waste haulers 171.20 155.7 Waste haulers 149.80 136.3 Treatment Plant Studge 171.20 155.7 Mud Sump Waste 535.00 486.6 Restauarant Grease 149.80 136.7 Restauarant Grease 149.80 136.7 Restauarant Grease 171.20 155.7 Resta	11	Gallons In Minimum					
14 Rate per 1,000 Gallons of Water Usage \$ 5.84 \$ 5.3 Residential \$ 5.84 \$ 5.3 16 Commercial and Industrial \$ 5.71 \$ 5.3 17 Car washes, laundromats, Commercial, Manufacturing 5.71 \$ 5.8 18 Hotels, Motels 7.66 6.8 19 Restauarants 9.46 8.6 20 Industrial Laundries 8.39 7.6 21 Waste haulers 171.20 155.7 22 Restuarant Grease 149.80 136.2 23 Treatment Plant Studge 171.20 155.7 24 Mud Sump Waste 535.00 486.6 25 26 27 28 29 486.8	12			•			
15 Residential \$ 5.84 \$ 5.84 16 Commercial and Industrial 5.71 5.2 17 Car washes, laundromats, Commercial, Manufacturing 5.71 5.2 18 Hotels, Motels 7.66 6.9 19 Restaurants 9.46 8.6 20 Industrial Laundries 8.39 7.6 21 Waste haulers 171.20 155.7 22 Restuarant Grease 149.80 136.2 23 Treatment Plant Sludge 171.20 155.7 24 Mud Sump Waste 535.00 486.6 25 486.6 27 28 29 486.8 486.8							
15 Residential \$ 5.84 \$ 5.84 16 Commercial and Industrial 5.71 5.2 17 Car washes, laundromats, Commercial, Manufacturing 5.71 5.2 18 Hotels, Motels 7.66 6.9 19 Restaurants 9.46 8.6 20 Industrial Laundries 8.39 7.6 21 Waste haulers 171.20 155.7 22 Restuarant Grease 149.80 136.2 23 Treatment Plant Sludge 171.20 155.7 24 Mud Sump Waste 535.00 486.6 25 486.6 27 28 29 486.8 486.8		Rate per 1,000 Gallons of Water Usage					
17 Car washes, laundromats, Commercial, Manufacturing 5.71 5.2 18 Hotels, Motels 7.66 6.8 19 Restauarants 9.46 8.6 20 Industrial Laundries 8.39 7.6 21 Waste haulers 171.20 155.7 22 Restuarant Grease 149.80 136.2 23 Treatment Plant Studge 171.20 155.7 24 Mud Sump Waste 535.00 486.8 25 26 27 28 29	15		\$	5.84	\$.	5.31	
17 Car washes, laundromats, Commercial, Manufacturing 5.71 5.2 18 Hotels, Motels 7.66 6.5 19 Restauarants 9.46 8.6 20 Industrial Laundries 8.39 7.6 21 Waste haulers 171.20 155.7 22 Restuarant Grease 149.80 136.2 23 Treatment Plant Studge 171.20 155.7 24 Mud Sump Waste 535.00 486.8 25 26 27 28 29	16	Commercial and Industrial					
18 Hotels, Motels 7,66 6.5 19 Restaurants 9,46 8.6 20 Industrial Laundries 8.39 7.6 21 Waste haulers 171,20 155.7 22 Restuarant Grease 149,80 136.2 23 Treatment Plant Sludge 171,20 155.7 24 Mud Sump Waste 535.00 486,8 25 26 27 28 29		Car washes, laundromats, Commercial, Manufacturing		5.71		5.20	
Industrial Laundries 8.39 7.6						6.97	
21 Waste haulers 171.20 155.7 22 Restuarant Grease 149.80 136.3 23 Treatment Plant Studge 171.20 155.7 24 Mud Sump Waste 535.00 486.8 25 6 27 28 29						8.61	
No.	20	Industrial Laundries				7.63	
7 Treatment Plant Studge 171.20 155.7 Mud Sump Waste 535.00 486.8 Mud Sump Waste 535.00 486.8 26 27 28 29	21	Waste haulers				155.79	
24 Mud Sump Waste 535.00 486.6 25 26 27 28 29	22	Restuarant Grease				136.32	
25 26 27 28 29	23	Treatment Plant Sludge				155.79	
26 27 28 29	24	Mud Sump Waste		535.00		486.85	
27 28 29	25						
28 29	26						
29	27						
	29						
30	30						

Utility Source, LLC - Wastewater Division Present and Proposed Rates Test Year Ended December 31, 2012

Exhibit Rejoinder Schedule H-3 Page 3 Witness: Bourassa

Other Charges:

5	Establishment	\$ 20.00
6	Establishment (After Hours)	\$ 40.00
7	Reconnection (Delinquent)	\$ 50.00
8	Reconnection (Delinquent and After hours)	\$ 40.00
9	Minimum Deposit Requirement	PER RULE
10	Deposit Interest	PER RULE
11	Re-establishment (Within 12 months)	PER RULE
12	NSF Check	\$ 20.00
13	Deferred Payment, per month	PER RULE
14	Late Charge	PER RULE
15	After hours service charge	\$ 40.00
16		
17		
18		
19		
20		1

\$ 20.00
*Removed
\$ 50.00
*Removed
PER RULE
PER RULE
PER RULE
\$ 20.00
PER RULE
PER RULE
\$ 40.00

<sup>20
21
22
23
24 *</sup> After hours service charge will apply when service requested by customer after hours.

ATTACEMENT 2

1	BEFORE THE ARIZONA CO	PRPORATION COMMISSION
2		
3	BOB STUMP, CHAIRMAN	
4	GARY PIERCE BRENDA BURNS	
5	SUSAN BITTER SMITH BOB BURNS	
6		DOCKET NO: SW-03437A-13-0331
7	IN THE MATTER OF THE	
8	APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR	
9	VALUE OF ITS UTILITY PLANTS AND	
10	PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER	
11	RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	
12		
13		
14	REJOINDER T	
15	THOMAS J.	
16	(COST OF	•
17	Novembe	er 7, 2014
18		
19		
20		
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24		
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26		
1		

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2	I. INTRODUCTION AND QUALIFICATIONS1
3	II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY1
5	III. Summary of the Staff and RUCO Recommendations
6 7	IV. REJOINDER TO THE COST OF EQUITY RECOMMENDATIONS OF STAFF AND RUCO6
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For convenience, that testimony and my related schedules are contained in separate volumes.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?

- A. No. I updated my cost of capital analysis on my rebuttal testimony filed on October 3, 2014. I updated my cost of capital in my rebuttal testimony because of the significant period of time between the Company's direct filing and its rebuttal filing. I did not feel the need to provide an additional update at this time because my rebuttal update is approximately 1 month old.
- Q. PLEASE SUMMARIZE YOUR RECOMMENDED REJOINDER COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED REJOINDER RATE OF RETURN ON RATE BASE.
- A. I continue to recommend a cost of equity of 11.0 percent based on my most recent cost of capital analysis. The range of my rebuttal DCF, CAPM, and Build-up Method analyses is 9.0 percent to 11.6 percent with a mid-point of 10.3 percent. My opinion that a return on equity of 11.0 percent for USLLC given its size and greater risk compared to the public traded water utilities is conservative. The Company's recommended capital structure consists of 0 percent debt and 100 percent common equity as shown on Rejoinder Schedule D-1. Based on the Company's recommended cost of equity and capital structure, the Company's weighted cost of capital ("WACC") is 11.0 percent, as shown on Rejoinder Schedule D-1.

1	n	
1	I.	INTRODUCTION AND QUALIFICATIONS
2	Q.	PLEASE STATE YOUR NAME AND ADDRESS.
3	A.	My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4		Phoenix, Arizona 85029.
5	Q.	ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?
6	A.	On behalf of Applicant Utility Source, LLC ("USLLC" or the "Company").
7	Q.	DID YOU ALSO PREPARE REJOINDER TESTIMONY ON RATE BASE
8		ISSUES IN THIS DOCKET?
9	A.	Yes. My rejoinder testimony on rate base, income statement, revenue requirement
10		and rate design is being filed in a separate volume at the same time as this
11		testimony. In this volume, I present my cost of capital rejoinder testimony. Also
12		attached are two exhibits, which are discussed below.
13	II.	SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL
14		FOR THE COMPANY
15	Q.	WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REJOINDER
16		TESTIMONY?
17	A.	I will provide responses as appropriate to the surrebuttal testimony of Staff witness
18		Mr. John Cassidy and RUCO witness Mr. Robert Mease. This portion of my
19		rejoinder testimony focuses on cost of capital issues. I will testify in support of
20		USLLC's proposed return on equity and rate of return on its fair value rate base
21		("FVRB"). I am sponsoring the Company's D Schedules, which are attached to
22		this testimony. There are 22 schedules that support my cost of capital testimony.
23		As noted above, I am also sponsoring rejoinder testimony that addresses the
24		Company's rate base, income statement (revenue and operating expenses), required
25		increase in revenue, and its rate design and proposed rates and charges for service.
26		proposed rates and solvies.

III. SUMMARY OF THE STAFF AND RUCO RECOMMENDATIONS

- Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.
- A. Staff continues to recommend a capital structure consisting of 0 percent debt and 100 percent equity. Staff 's updated cost of equity of 9.8 percent is based on the average cost of equity produced by its DCF and CAPM models, a financial risk adjustment and an economic assessment adjustment (EAA). Staff did not consider firm size or firm-specific risks in its analysis. Based on its capital structure recommendation, Staff determined the WACC for USLLC to be 9.8 percent.

RUCO continues to recommend a capital structure consisting of 0 percent debt and 100 percent equity.⁴ RUCO's updated cost of equity of 9.25 percent is based on the average cost of equity produced by its DCF and CAPM models as wells as a Comparable Earnings analysis and a 70 basis point risk premium.⁵ Based on its capital structure recommendation, RUCO determined the WACC for USLLC to be 9.25 percent.⁶

Q. PLEASE COMPARE THE PARTIES' RESPECTIVE COST OF EQUITY ESTIMATES AND RECOMMENDATIONS.

¹ See Surrebuttal Testimony of John A. Cassidy ("Cassidy Db.") at 16. Staff Surrebuttal Scehydule JAC-3.

^{23 2} ld. at 17.

³ Id. at 17.

⁴ See RUCO Surrebuttal Schedule RBM-1.

⁵ See RUCO Surrebuttal Schedule RBM-2.

⁶ See Surrebuttal Testimony of Robert B. Mease ("Mease Sb.") at 1.

A.	The respective parties'	cost of equity	recommendations	are summarized bele	ow:
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<u>Party</u>	<u>DCF</u>	<u>CAPM</u>	Build- <u>Up/CE</u>	Average	Financial Risk/EAA /Other	Adjusted	Recommended
USLLC	9.6%	9.7%	11.5%	10.3%	N/A	10.3%	11.0%
Staff	9.2%	N/A	N/A	9.2%	0.6%	9.8%	9.8%
RUCO	8.71	7.24	9.8	8.55	0.7%	9.25	9.25%

Q. HAVE YOU UPDATED THE FORECASTS OF COMMON EQUITY RETURNS AND CURRENTLY AUTHORIZED RETURNS? IF SO, HOW DO THEY COMPARE TO THE RECOMMENDATIONS OF STAFF AND RUCO?

A. Yes. And, the recommendations of the Staff and RUCO continue to be much lower. *Value Line* (October 17, 2014) shows actual and projected returns on equity for the water utilities:

Company	Actual			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2017-19</u>
American States Water (AWR)	12.7%	11.5%	12.5%	12.5%
Aqua America (WTR)	13.4%	13.5%	14.5%	14.0%
California Water (CWT)	7.9%	8.0%	9.0%	10.0%
Connecticut Water (CTWS)	9.2%	9.5%	10.0%	10.0%
Middlesex Water (MSEX)	8.7%	9.0%	9.5%	9.5%
SJW Corp. (SJW)	7.3%	7.5%	8.0%	8.0%

York Water. (YORW)	<u>9.3%</u>	<u>11.0%</u>	12.5%	12.5
Averages	9.8%	10.0%	10.9%	10.9
The currently authorized ROEs for the	e sample	water utilit	y companie	es as rep
by AUS Utility Reports (November	2014) a	verage 10.03	3 percent.	They a
follows:				
Company				
American States Water (AWR))	9.99%		
Aqua America (WTR)		10.29%		
California Water (CWT)		9.99%		
Connecticut Water (CTWS)		9.75%		

Middlesex Water (MSEX)

SJW Corp. (SJW)

Average

York Water. (YORW)

DO YOU STILL MAINTAIN THE VIEW THAT THAT USLLC'S COST OF Q. EQUITY IS HIGHER THAN THE PUBLICLY TRADED UTILITIES?

10.15%

9.99%

NM

10.03%

Yes. Besides the obvious liquidity risk (lack of liquidity of investment), smaller A. utilites face the risks of a smaller customer base, limited financial resources, lack of diversification across the customer base and geography. The business risk

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⁷ Annin, Micheal, "Equity and the Small-Stock Effect", Financial News, Public Utilities Fortnightly, October 15, 1995.; 113, 19, pg. 42.

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measures such as the coefficient of variation in earnings and operating leverage demonstrate (quantitatively) that smaller utilites, like USLLC are more risky than the publicly traded utilites.⁸

IV. REJOINDER TO THE COST OF EQUITY RECOMMENDATIONS OF STAFF AND RUCO

A. Responses to Staff's Surrebuttal Testimony

- Q. PLEASE RESPOND TO MR. CASSIDY'S CRITICISMS (ON PAGE 2) OF YOUR TESTIMONY THAT THE DCF MODEL PRODUCES ESTIMATES OF COMMON EQUITY COSTS ARE CONSISTENT WITH INVESTORS' EXPECTED RETURN ONLY WHEN THE STOCK PRICE AND BOOK VALUE ARE REASONABLY SIMILAR.
- A. Mr. Cassidy's testimony mischaracterizes the main point of my testimony. I do state the we should be concerned with the applicability of the DCF under current market conditions.⁹ That said, my example provided on page 10 was to demonstrate that the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations <u>only</u> when the market price of a stock and the stock's book value are approximately the same.¹⁰

Q. CAN YOU DEMONSTRATE THIS ANOTHER WAY?

A. Yes. Dr. Morin provides a simple numerical illustration demonstrating the impact of market-to-book ("M/B") ratios on the DCF market return in his book, New Regulatory Finance. I have included a copy of this analysis as Rejoinder Exhibit TJB-COC-RJ1.

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⁸ See Direct Testimony of Thomas J. Bourassa ("Bourassa Dt.") at 23-26.

⁹ Bourassa Rb. at 11-12.

10 Bourassa Rb. at 10.

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¹¹ Average of stock prices for Cassidy proxy group at September 28, 2014.

¹² Average of book value per share as of December 31, 2013, as reported by *Value Line*.

¹³ 9.2 percent times \$25.25.

percent¹⁹.

VALUES?

 14 Average adjusted dividend yield (D₀) for Cassidy proxy group of 2.9 percent times the average stock price of \$25.25.

DOES THE FACT THAT STAFF'S UPDATED DCF COST OF EQUITY IS

NOW 9.2 PERCENT CHANGE YOUR OVERALL ANALYSIS AND

No. Restating my example using Mr. Cassidy's updated average DCF estimate of

9.2 percent, USLLC would still have no realistic opportunity to actually earn

Mr. Cassidy's market-based rate of return. For example, the average market price

per share of his proxy group is \$25.25¹¹ and the average book value per share is

\$12.50.¹² Under these circumstances, Mr. Cassidy's 9.2 percent market-based cost

rate implies an annual return per share of \$2.32¹³ consisting of \$0.73 in dividends¹⁴

and \$1.59 in growth (market-price appreciation). However, application of a 9.2

percent return rate to book value per share (\$12.50) produces an opportunity to

earn a total annual return of just \$1.15.16 With annual dividends of \$0.6917, the

utility could reasonably expect market-price appreciation of \$0.46¹⁸, or only 1.82

WHAT ABOUT MR. CASSIDY'S ASSERTION THAT YOU SHOULD

HAVE USED WEIGHTED AVERAGE STOCK PRICES AND BOOK

CONCLUSIONS DRAWN FROM YOUR EXAMPLE?

¹⁵ Implied growth of 6.3 percent (the return of 9.2 percent less adjusted dividend yield of 2.9 percent) times the average stock price of \$25.25.

¹⁶ 9.2 percent times \$12.50.

17 \$1.15 times average payout ratio of 60%

¹⁸ \$1.15 minus \$0.69.

¹⁹ \$0.46 divided by \$25.25.

Α.

Putting aside the fact that Mr. Cassidy provides no theoretical or authoritative support for his position, and assuming he is correct that weighted averages of the stock prices and book values per share based upon market capitalization should have been used, the results of the analysis are similar to the results using the simple averages of the stock price and book value per share. More importantly, the conclusion drawn from the analyses are the same; that USLLC would still have no realistic opportunity to actually earn Mr. Cassidy's market-based rate of return.

Again, restating my example using Mr. Cassidy's updated average DCF estimate of 9.2 percent and using market capitalization weighted averages for the stock price and book value, USLLC would still have no realistic opportunity to actually earn Mr. Cassidy's market-based rate of return. For example, the weighted average market price per share of his proxy group is \$24.94²⁰ and the weighted average book value per share is \$10.81.²¹ Under these circumstances, Mr. Cassidy's 9.2 percent market-based cost rate implies an annual return per share of \$2.29²² consisting of \$0.72 in dividends²³ and \$1.57 in growth (market-price appreciation).²⁴ However, application of a 9.2 percent return rate to book value per share (\$10.81) produces an opportunity to earn a total annual return of just \$0.99.²⁵

²⁰ Weighted average of stock prices for Cassidy proxy group at September 28, 2014 based upon market capitalization.

²¹ Weighted average of book value per share as of December 31, 2013 based upon market capitalization, as reported by *Value Line*.

²² 9.2 percent times \$24.94.

Average adjusted dividend yield (D_0) for Cassidy proxy group of 2.9 percent times the average stock price of \$24.94.

²⁴ Implied growth of 6.3 percent (the return of 9.2 percent less adjusted dividend yield of 2.9 percent) times the weighted average stock price of \$24.94.

²⁵ 9.2 percent times \$10.81.

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With annual dividends of \$0.50²⁶, the utility could reasonably expect market-price appreciation of \$0.49²⁷, or only 1.96 percent²⁸.

WHAT WOULD HAPPEN TO THE STOCK PRICE IF INVESTORS Q. **RECEIVE A DVIDEND OF JUST \$0.50?**

- A. It would decline significantly. Let me explain. Using the previous example, if investors expect a dividend of \$0.72 based upon a dividend yield of 2.9 percent and a market price of \$24.94, but investors only get a dividend of \$0.50²⁹, then the market price of the stock must necessarily decline to \$17.24³⁰ (\$7.70 per share). This is because investors expect a dividend yield of 2.9 percent but the actual dividend paid (\$0.50) provides only a dividend yield of 2.0 percent. The stock price would further decline because investors would not receive the growth in the stock price they expect. In other words, investors would not receive their expected return on the price they paid for the stock and the market price will be driven down to book value so that investors will achieve their expected return.
- PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGES 3 AND Q. 4) THAT THE FINANCIAL RISK FOR THE PUBLICLY TRADED COMPANIES IS HIGHER THAN THAT FOR USLLC.
- I agree. I have considered USLLC's lower financial risk in my recommendation of Α. an 11.0 percent cost of equity for USLLC.31 Business and financial risk, while separate risks, are interrelated. Specifically, a common equity investor may seek

²⁶ \$0.99 times weighted average payout ratio of 51%

²⁷ \$0.99 minus \$0.50.

²⁸ \$0.49 divided by \$24.94.

²⁹ \$0.99 times weighted average payout ratio of 51% 30 \$0.50/2.9 percent

³¹ See Direct Testimony of Thomas J. Bourassa ("Bourassa Dt.) at 28.

low degree of financial risk. Studies show that smaller firms tend to offset business risk with lower financial risk. A study by Scott and Martin³² found statistically significant results for unregulated firms in twelve industries that "smaller equity ratios (higher leverage use) are generally associated with larger companies".³³ One should expect unregulated enterprises to seek the best balance between debt and equity to obtain the lowest overall cost of capital. The findings of Scott and Martin suggest smaller firms found it prudent to offset higher business risks related to being small by reducing financial risk. This evidence suggests the least cost equity ratio for USLLC should be higher than the average equity ratio for the utility proxy group.

to offset exposure to high business risk by investing in a firm perceived to have a

Q. IS USLLC'S LACK OF FINANCING FLEXIBILITY ALSO A SOURCE OF ADDED RISK?

- A. Yes. Because USLLC is not publicly traded, it does not have access to equity markets available to publicly traded utilities in the water proxy group. This lack of financing flexibility increases risk because USLLC has to rely on fewer sources of capital. By contrast, utilities in the water proxy group utilities sample have the flexibility to issue shares of equity in vast equity markets to keep their capital structures in balance and raise additional capital from external sources.
- Q. DID YOU STATE IN YOUR REBUTTAL THAT STAFF HAS NOT EXPLAINED ITS REASONS FOR NOT CONSIDERING THE CAPM?

³² Scott and Martin, "Industry Influence on Financial Structure," *Financial Management*, Spring 1975, pp. 67-71 ³³ Id. p. 70.

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Α.

That is, the CAPM using the Staff inputs produce distortions in the results which cannot pass the reasonableness test. This reason fits into Staff's rather vague explanation of why it did not consider its CAPM.

No. I did sugguest a possible reason for Staff's decision to not use the CAPM.³⁴

Q. WHY DO YOU FIND STAFF'S EXPLANATION FOR NOT CONSIDERING THE CAPM VAGUE?

- For at least three reasons. First, Staff does not explain what it means by "continuing divergence" from its DCF and does not explain the conditions under which its CAPM results are acceptable to Staff. Rejecting the CAPM at Staff's convenience seems to me to be a results oriented approach. Second, implied in the Staff explanation is the notion that its CAPM must produce results similar to its DCF results. Instead of examining the reasons and possible flaws in its CAPM approach (or even the DCF for that matter) and adjusting its approach, it simply abandons its CAPM until such time as Staff deems its CAPM results to be reasonable. Third, by using its DCF results as its "benchmark" and only using its DCF model to base its recommendation in the instant case, Staff is suggesting the only correct way to measure the cost of equity is with its DCF. Again, this seems to me to be a results oriented approach. As Dr. Morin states, "when measuring equity costs, which essentially deals with the measurement of investor expectations, no single methodology provides a foolproof panacea." 35
- Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGE 7)
 THAT MODIFYING YOUR CURRENT MARKET RISK PREMIUM
 METHODOLOGY IS SELF-SERVING.

³⁴ Bourassa Rb. at 18.

³⁵ Roger A. Morin. New Regulatory Finance, Public Utility Reports, Inc., 2006. pp. 428-429.

A.

I have a three responses. First, I have modified my approach to estimating the cost of equity over the years, many of which were compromises based upon the Staff criticisms of my methods. Second, in the recently filed Quail Creek Water rate case (Docket No. W-02514A-14-0343) I am recommending a current market risk premium ("MRP") method which is similar to the one I propose in this case. I have done so because I believe it is superior to the method using price appreciation.³⁶ That said, when I find better methods to estimate the cost of equity, I use them. A perfect example has been my use of the build-up method in more recent cases. Third, using the projected EPS and DPS growth is more consistent with the underlying requirements of the DCF method used to compute the current market risk premium ("MRP"). After-all, Staff uses EPS and DPS growth in its own DCF model. Third, Staff has historically used the spot 3-5 year price appreciation for estimating the current MRP. Putting aside my concerns about the volatility of this method, 37 based on the the recent Value Line Investment Survey Summary and Index (October 24, 2014) Staff's estimate of the current MRP would be at least 8.88³⁸ percent, which is 55 basis points higher than my current MRP estimate of 8.33 percent.³⁹

Q. MR. CASSIDY ASSERTS (ON PAGE 10) THAT THE CURRENT MARKET RISK PREMIUM METHOD YOU EMPLOY IS NOT CONSISTENT WITH DR. MORIN'S STUDY. PLEASE RESPOND.

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³⁶ Bourassa Rb. at 2.

³⁷ Bourassa Dt. at 39.

³⁸ Using median dividend yield of 2.2 percent, median price appreciation is 45 percent (annualized growth of 9.73 percent), and spot long-term U.S. Treasury rate of 3.05 percent, the DCF based estimate produces an expected market return of 11.93%. Subtracting the spot long-term U.S. Treasury rate produces an 8.88 percent current market risk premium (11.93-3.05%).

³⁹ See USLLC Rejoinder Schedule D-4.11.

A. Mr. Cassidy mischaracterizes Dr. Morin text. In describing the study upon, which Dr. Morin's example is based, Dr. Morin does not stop at describing the expected market return from the study as the sum of the spot dividend added to the average diviendeds and earnings forecasts. Dr. Morin goes on to state⁴⁰,

At the time, excluding high growth stocks, the expected dividend yield (e.g. D_1/P_0) on the aggregate market was 3.3% and the projected growth for the Value Line common stocks was in the range of 8.5% to 11.2%. Adding these two components together produced an expected return on the aggregate equity market in the range of 11.8% to 14.5% with a mid-point of 13.2%. Recognition of quarterly dividend payments, and an expected dividend yield (e.g. D_1/P_0) rather than a spot dividend yield (e.g. D_0/P_0) brought this estimate to abount 13.6%....(emphasis added)

Mr. Cassidy's selected quote gives one the impression that Dr. Morin only described the approach as using a spot dividend yield and is completely misleading. Recognition of the expected dividend yield is embedded in the standard DCF model ($K = D_1/P_0 + g$) and Dr. Morin's statement above is entirely consistent with it.⁴¹ I would note that Dr. Morin also describes recognizing the impact of quarterly dividends (time value of money on dividend payments) which increased the expected aggregate market return. Dr. Morin discusses quarterly dividends and the impact on the cost of equity at length in his textbook, *New Regulatory Finance*.⁴²

⁴⁰ Morin, p. 166.

⁴¹ Morin, p. 254.

⁴² Morin, p. 282 and pp. 343-349.

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Q.	DOES	YOUR	METHOD	REFLECT	QUARTERLY	DIVIDEND
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- A. No. Had I done so, my current MRP would have been higher.
- Q. DOES DR. MORIN RECOMMEND THE USE OF A SPOT LONG TERM U.S. TREASURY YIELD IN THE CAPM AS MR. CASSIDY SUGGESTS (ON PAGE 11)?
- A. No. Again, Mr. Cassidy mischaracterizes Dr. Morin's text. The text Mr. Cassidy cites says nothing about a spot yield, rather that yields on long-term U.S. Treasury bonds should be used. This could be a spot yield or a forecast yield. That said, Dr. Morin states⁴³,

At the conceptual level, given that ratemaking is a forward-looking process, interest rate forecasts are prefereable. Moreover, the conceptual models used in the determination if the cost of equity, such as the CAPM, are prospective in nature and require expectational inputs.

I employ expected yields on long-term U.S. Treasuries rather than spot yields which is entirely consistent with the quotation of Dr. Morin's text by Mr. Cassidy and Dr. Morin's quotation above. Mr. Cassidy's assertion that my historical CAPM and my current MRP CAPM is overstated is unfounded.⁴⁴

⁴³ Morin, p. 172.

⁴⁴ Cassidy Sb. at 11.

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MEASURES?

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⁴⁵ Cassidy Sb. at 13 and 14. See also Bourassa Dt. at ⁴⁶ Cassidy Sb. at 15.

⁴⁷ Cassidy Sb. at 15.

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⁴⁸ Decision 62993, dated November 3, 2000.

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DOES MR. CASSIDY DISPUTE THAT THE RELATIVE MEASURES OF

BUSINESS RISK (THE COEFFICENT OF VARIANCE OF EARNINGS

AND OPERATING LEVERAGE) ARE NOT VALID BUSINESS RISK

No. And, despite this quantitative evidence, he does not believe USLLC is more

risky than the water proxy group as measured. 45 Mr. Cassidy simply dismisses the

evidence by making the statement that businesses in the same lines of business tend

to experience the same fluctuations in business cycles.⁴⁶ I take this to mean Mr.

Cassidy believes that an investment in Hyatt Worldwide Holdings has the same

business risk than a small mom and pop hotel in central Phoenix. This defies

common sense. That said, Mr. Cassidy goes on to state "as a regulated public

water utility one would expect USLLC's exposure to business risk to be essentially

the same as that of regulated publicly-traded utilities".⁴⁷ Putting aside my earlier

comment about common sense, I am sure Mr. Cassidy is well aware of the

financial difficulties encounted by the smaller utilities in Arizona. In fact, this

Commission has recognized the problems associated with small water utilities in

DO SMALLER UTILITES TYPCALLY HAVE HIGHER RELATIVE

Yes. I began computing the co-efficient of variance of earnings and operating

leverage in the past few years for utilities who I assisted in filing rate cases.

BUSINESS RISK AS REFLECTED IN THESE TWO MEASURES?

Consistently, the smaller firms have had higher business risk relative to the public traded companies.⁴⁹ Mr. Cassidy may disagree with how much more risky a smaller utility is compared to the water proxy group, but he cannot say that smaller utilities have the same business risk.

Q. DOES THE FACT THAT UTILITIES ARE REGULATED ELIMINATE SMALL FIRM RISK?

- A. No. Utilities are granted an opportunity to earn a return. They are not guaranteed a return. Smaller utilities are less likely to achieve their authorized return and miss the mark by a greater degree than the larger publicly traded utilities. The higher co-efficient of variance on earnings and operating leverage are, in part, a reflection of that.
- Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGES 13 AND 14) REGARDING THE STUDY PERFORMED BY MS. WONG?
- A. Mr. Cassiy has not explained why Dr. Zepp's criticisms regarding Ms. Wong's study are wrong, why Dr. Zepp's study and his conclusions regarding smaller water utilities are wrong, nor why the conclusions of the California Public Utilities Commission regarding the higher risks of smaller utilities are wrong. Mr. Cassidy simply dismisses all the evidence on small size and risk premiums by relying on one single and obscure study by Ms. Wong.

⁴⁹ e.g. Las Quantas Serenas Water Company (ACC Docket No. W-01583A-13-0113); Quail Creek Water Company (ACC Docket No. W-02514A-14-0343); Lago Del Oro Water Company (Docket No. W-01944A-13-0215); Payson Water Company (ACC Docket No. W-03514A-13-0111); Libery Utilities (Pine Bluff Water), Inc. (Arkansas Public Service Commission Docket No. 14-020-U); Alaska Power and Telephone (Regulatory Commission of Alaska Docket No. U-14-002); and Municipal Light and Power (Regulatory Commission of Alaska Docket No. U-13-184).

Q. DO YOU HAVE ADDITIONAL EVIDENCE THAT SMALLER UTILTIES ARE MORE RISK THAN LARGER UTILITIES?

- A. Yes. Attached as **Rejoinder Exhibit TJB-COC-RJ2** is an article by Micheal Annin, "Equity and the Small-Stock Effect", *Financial News*, Public Utilities Fortnightly, October 15, 1995. In a study prepared by Mr. Annin, he showed that the smaller utilities had higher returns than larger utilities as estimated by the CAPM. He also noted the CAPM's inability to account for all the risks of stocks, particularly for smaller firms. He found that adding a small company risk premium increased the traditional CAPM return by 400 basis points for smaller utilities.
- Q. MR. CASSIDY NOTES THAT THE COMMISSION HAS NOT PREVIOUSLY ADOPTED A SMALL COMPANY RISK PREMIUM. PLEASE COMMENT?
- A. I have three comments. First, I am not sure that is necessarily true. This Commission has adopted equity returns for small utilities in the past which were not specifically adjusted for financial risk even though there were large differences in capital structures between the utility and the water proxy group. In the instant case, Staff states that it has not adjusted for financial risk even though it has a 100 percent equity capital structure and the water proxy group is approximately 48 percent debt and 52 percent equity because of USLLC's lack of access to the capital markets.⁵⁰ By not reducing the cost of equity is, in essence, at least a partial recognition of the additional risks of an investment in USLLC. Second, whether the Commission calls it a small company risk premium or company specific risk premium, the quantitative evidence discussed previously shows that

⁵⁰ See Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 27.

USLLC is more risky relative to the publicly traded utilities and by a significant amount. The *Hope* and *Bluefield* standards cannot be met without recognition of this higher risk.

B. Response to RUCO's Surrebuttal Testimony

- Q. PLEASE COMMENT ON MR. MEASE'S TESTIMONY (ON PAGE 2)
 THAT THE MARKET-TO-BOOK RATIO LESS THAN ONE IMPLIES
 EXCESSIVE RETURNS AND A MARKET-TO-BOOK RATIO OF
 GREATER THAN ONE UNDESTAES THE COST OF EQUITY IS A
 MYTH?
- A. As discussed earlier (at page 9) and demonstrated in **Rejoinder Exhibit TJB-COC-RJ1**, the DCF method understates the fair return on book equity since it produces a capitalization rate, if applied directly to book equity, and will produce a market price equal to book value. Mr. Mease provides no authoritative or theorectical support for his "belief" that this is a myth.
- Q. HAS MR. MEASE EXPLAINED WHAT A COMPOSITE MEDIAN IS AND WHY HE CHOSE THE DCF COMPOSITE MEDIAN RESULT OVER THE DCF MEAN OR THE DCF MEDIAN RESULT?
- A. No. Mr. Mease explained how he computed the composite median of 8.7 percent, but he has not explained what it represents or why he chose it over the other composite median results in Surrebuttal Schedule RBM-3. He has also not explained why he chose this particular composite median over the mean, median, or even the composite means shown on his schedule.
- Q. DO YOU HAVE ANY RESPONSE TO MR. MEASE'S SURREBUTTAL TESTIMONY REGARDING HIS CAPM?

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Α.	No. I have express	sed my concerns over Mr. Mease's inputs extensively in my
	rebuttal testimony.51	Mr. Mease has not provided anything new to support his
	position(s).	

- Q. DO YOU HAVE ANY RESPONSE TO MR. MEASE'S SURREBUTTAL TESTIMONY REGARDING MS. WONG'S STUDY AND THE COMMISSION'S REJECTION OF SMALL COMPANY RISK PREMIUMS IN THE PAST?
- A. My response would be similar to my earlier comments (at pages 15-18) regarding Ms. Wong's study, the higher business risk of USLLC compared to the publicly traded utilities, and the Commission's past decisions on small company risk premiums.
 - DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY ON COST OF CAPITAL?
- A. Yes. Although my silence on other positions of the other parties in this case on cost of capital that were not addressed in my rejoinder testimony does not constitute agreement with them.

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⁵¹ Bourassa Rb. at 24-31.

D SCHEDULES

Utility Source, LLC Test Year Ended December 31, 2012 Summary of Cost of Capital

Consolidated Capital Structure

Exhibit Rejoinder Schedule D-1 Page 1 Witness: Bourassa

Actual End of Test Year

Projected Capital Structure

Line No. 1 2	Item of Capital Long-Term Debt	Dollar <u>Arnount</u> -	Percent of <u>Total</u> 0.00%	Cost <u>Rate</u> 0.00%	Weighted Cost 0.00%	Dollar <u>Amount</u> -	Percent of <u>Total</u> 0.00%	Cost Rate 0.00%	Weighted <u>Cost</u> 0.00%
3 4	Stockholder's Equity	3,722,209	100.00%	11.00%	11.00%	3,649,952	100.00%	11.00%	11.00%
5	Totals	3,722,209	100.00%	=	11.00%	3,649,952	100.00%		11.00%
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8 9									
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SUPPORTING SCHEDULES: D-1 D-3 D-4

Testimony

RECAP SCHEDULES:

Utility Source, LLC Test Year Ended December 31, 2012 Cost of Long Term Debt

Exhibit Rejoinder Schedule D-2 Page 1 Witness: Bourassa

		End of Test Year			End of Projected Year				
Line No.	Description of Debt	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount <u>Outstanding</u>	Annual Interest	Interest <u>Rate</u>	Weighted Cost
2			-	0.000%	0.000%		-	0.000%	0.000%
3				0.000%	0.000%		-	0.000%	0.000%
4			-	0.000%	0.000%		•	0.000%	0.000%
5			-	0.000%	0.000%		-	0.000%	0.000%
6			-	0.000%	0.000%		-	0.000%	0.000%
7			•	0.000%	0.000%		-	0.000%	0.000%
8			•	0.000%	0.000%			0.000%	0.000%
9			-	0.000%	0.000%		•	0.000%	0.000%
10			-	0.000%	0.000%		•	0.000%	0.000%
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16 17	Supporting Schdules: E-1								
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Utility Source, LLC Test Year Ended December 31, 2012 Cost of Preferred Stock

Exhibit Rejoinder Schedule D-3 Page 1 Witness: Bourassa

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Line								
No.								
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3	Description	Shares		Dividend		Shares		Dividend
4	of Issue	Outstanding	Amount	Requirement			Amount	Requirement
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7	NOT APPLICABLE	, NO PREFERRE	D STOCK	SISSUED OR C	UTSTAND	DING		
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Utility Source, LLC Test Year Ended December 31, 2012 Cost of Common Equity

Exhibit Rejoinder Schedule D-4 Page 1 Witness: Bourassa

Line <u>No</u> . 1		
2	The Company is proposing a cost of common equity of	11.00% .
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17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19	D-4.1 to D-4.18	
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Utility Source, LLC Summary of Results

Exhibit Rejoinder Schedule D-4.1 Witness: Bourassa

Line		
No.		
1		
2 3		
		Median
4	<u>Method</u>	Result
5		
6	DCF Constant Growth Estimates ¹	9.0%
7		
8	CAPM Estimates ²	9.7%
9		
10	Build-up Method Estimates ³	11.6%
11		
12	Mid-point	10.3%
13		
14		
15	D 1 10 1155 114	44.00/
16 17	Recommended Cost of Equity ⁴	11.0%
18		
19	1 See Rejoinder Schedule D-4-8	
20	2 See Rejoinder Schedule D-4.12	
21	3 See Rejoinder Schedule D-4.18	
22	⁴ Testimony	
23	, activity	

Utility Source, LLC Selected Characteristics of Sample Group of Water Utilities

Exhibit Rejoinder Schedule D-4.2 Witness: Bourassa

			Witness: Bourassa							
Line										
No.				erating		Net	S&P	Moody's		
1		% Water	Re	venues		Plant	Bond	Bond	Allowed	Book
2		Revenues ¹	(m	illions) ¹	Ú	nillions) ¹	Rating 1	Rating'	ROE (%)1	ROE (%)
3	Company ¹									
4	1. American States	71%	\$	458.4	\$	988.7	A+	A2	9.99	12.30
5	2. Aqua America	98%	\$	770.9	\$	4,233.8	AA-	NR	10.29	14.60
6	3. California Water	100%	\$	587.0	\$	1,539.5	AA-	NR	9.99	7.90
7	Connecticut Water	100%	\$	94.9	\$	483.8	A/A-	NR	9.75	11.10
8	5. Middlesex	88%	\$	115.1	\$	451.4	Α	NR	10.15	8.90
9	6. SJW Corp.	95%	\$	277.5	\$	915.0	Α	NR	9.99	6.70
10										
11	Average	92%	\$	384.0	\$	1,435.4			10.03	10.25
12	•									
13	Utility Source, LLC	100%	\$	0.3	\$	4.0	NR	NR.		
14	(Adjusted as of December 31, 2012)									
15	, . , ,									
16										
17										
18										
19										
20										
21	AUS Utility Reports (September 2014).									
22	The state of the s									
23										
24										
25										

Utility Source, LLC Capital Structures

Exhibit Rejoinder Schedule D-4.3 Witness: Bourassa

No.		Book '	Value ¹	Marke	et Value ¹
1		Long-Term	Common	Long-Term	Common
2		Debt	Equity	Debt	Equity
3	Company				
4	1. American States	39.8%	60.2%	21.5%	78.5%
5	2. Aqua America	48,9%	51.1%	25,9%	74.1%
6	3. California Water	41.6%	58.4%	28.0%	72.0%
7	4. Connecticut Water	47.0%	53.0%	32.7%	67.3%
8	5. Middlesex	40.7%	59.3%	29.0%	71.0%
9	6. SJW Corp.	51.0%	49.0%	38.1%	61.9%
10	•				
11	Average	44.8%	55.2%	29.2%	70.8%
12					
13	Utility Source, LLC	0.0%	100.0%	N/A	N/A
14	(Actual December 31, 2012)			• • •	, ,
15	(= 555				

Value Line Analyzer Data (September 28, 2014)
 Adjusted Per Rejoinder Schedule D-1

16

Utility Source, LLC Comparisons of Past and Future Estimates of Growth

Exhibit Rejoinder Schedule D-4.4 Witness: Bourassa

-1110									
No.									
1									
2			[1]	[2]	[3]	[4]	[5]	[6]	[7]
3									Average of
4									Future and
5			Five-vea	<u>r historical av e</u>	rage annual ch	anges_		Average	Historical
6				Book			Average	Future	Growth
7	Ç	отралу	Price ¹	<u>Value²</u>	EPS ²	DPS2	Col 1-4	Growth ³	Col 5-6
8	1. Ai	merican States	16.07%	6.50%	13.00%	6.50%	10.52%	2.67%	6.59%
9	2. Ac	qua America	11.70%	6.00%	11.00%	7.00%	8.92%	6.00%	7.46%
10	3. Ca	alifornia Water	4.27%	4.50%	4.00%	1.50%	3.57%	6.50%	5.03%
11	4. Co	onnecticut Water	12.77%	8.00%	8.00%	2.00%	7.69%	5.00%	6.35%
12	5. Mi	iddles ex	8.36%	3.00%	1.50%	1.50%	3.59%	3.60%	3.60%
13	6. S.	JW Corp.	4.24%	2.50%	0.50%	3.50%	2.69%	10.50%	6.59%
14									
15									
16	_	ROUP AVERAGE	9.57%	5.08%	6.33%	3.67%	6.16%	5.71%	5.94%
17	GI	ROUP MEDIAN	10.03%	5.25%	6.00%	2.75%	5.64%	5.50%	6.47%

Average of changes in annual stock prices ending on December 31 through 2012. Data from Yehoo Finance website.
 Value Line Analyzer Data, September 28, 2014
 See Rejoinder Schedule D-4.6.

Line

18 19 20

Utility Source, LLC Comparisons of Past and Future Estimates of Growth

Exhibit Rejoinder Schedule D-4.5 Witness: Bourassa

Line <u>No.</u>								
1 2		[1]	[2]	[3]	[4]	[5]	[6]	[7]
_			• •		• •	• •	. ,	Average of Future and
3		T					A	
4 .		ren-year	historical aver	age annuai cr	langes	Avernae	Average Future	Historical
5		•	Book	2	9	Average	_	Growth
6	Company	Price1	<u>Value²</u>	EPS ²	DPS ²	<u>Çol 1-4</u>	Growth ³	Col 5-6
7	 American States 	12.91%	5.00%	6.50%	3.00%	6.85%	2.67%	4.76%
8	2. Agua America	10.31%	8.50%	7.00%	7.50%	8.33%	6.00%	7.16%
9	3. California Water	10.19%	5.00%	4.00%	1.00%	5.05%	6.50%	5.77%
10	Connecticut Water	6.58%	4.00%	0.50%	1.50%	3.14%	5.00%	4.07%
11	5. Middlesex	4.38%	4.50%	3.50%	1.50%	3.47%	3.60%	3.53%
12	6. SJW Corp.	12.91%	5.50%	4.00%	5.00%	6.85%	10.50%	8.68%
13	C. C. C. C. C. P.							
14								
15	GROUP AVERAGE	9.54%	5.42%	4.25%	3.25%	5.62%	5.71%	5.66%
16	GROUP MEDIAN	10.25%	5.00%	4.00%	2.25%	5.95%	5.50%	5.27%
17								
18								
19								
10	4						•• -	

Average of changes in annual stock prices ending December 31, 2013. Data from Yahoo Finance website.
 Value Line Analyzer Data, September 28, 2014.
 See Rejoinder Schedule D-4.6.

Utility Source, LLC
Analysts Forecasts of Earnings Per Share Growth

Exhibit Rejoinder Schedule D-4.6 Witness: Bourassa

Line					
No.					
1		[1]	[2]	[3]	[4]
2 3					
3					
4		ESTIMATES	OF EARNING		Average
5				Value	Growth (G)
6	Company	Yahoo ¹	Zacks1	<u>Line²</u>	(Cols 1-3)3
7	1. American States	1.00%	1.00%	6.00%	2.67%
8	2. Aqua America	4.00%	5.50%	8.50%	6.00%
9	3. California Water	6.00%	6.00%	7.50%	6.50%
10	4. Connecticut Water	5.00%	5.00%	5.00%	5.00%
11	5. Middlesex	2.70%		4.50%	3.60%
12	6. SJW Corp.	14.00%		7.00%	10.50%
13					
14					
15	GROUP AVERAGE	5.45%	4.38%	6.42%	5.71%
16	GROUP MEDIAN				5.50%
17					
18					
19	¹ Data as of October 2, 2014				
20	² Data as of September 28, 201	4.			
21	² Where no data available or sir	ngle estimate, av	rerage of other	utilities assume	d to estimate f
22					
23					
24					
25					
26					
27					
28					

Data as of October 2, 2014
 Data as of September 28, 2014.
 Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Utility Source, LLC Current Dividend Yields for Water Utility Sample Group

Exhibit Rejoinder Schedule D-4.7 Witness: Bourassa

Company	S	erage lock e (P _o)¹	-	urrent end (D _o) ¹	Current Dividend Yield (D _v /P _o) ¹	Average Annual Dividend Yield (D _d /P _n) ^{1,2}
1. American States	\$	31.20	\$	0.87	2.79%	3.15%
2. Aqua America	\$	24.24	\$	0.66	2.72%	2.80%
3. California Water	\$	23.41	\$	0.66	2.82%	3.36%
4. Connecticut Water	\$	32.48	\$	1.03	3.17%	3.62%
5. Middlesex	\$:	20.24	\$	0.77	3.80%	3.96%
8. SJW Corp.	\$	26.85	\$	0.76	2.83%	2.95%
Average					3.02%	3.31%
Median					2.83%	3.26%

¹ Yahoo Finance. 60 day average of stock prices as of October 2, 2014.

Line

² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Utility Source, LLC Discounted Cash Flow Analysis DCF Constant Growth

Exhibit Rejoinder Schedule D-4.8 Witness: Bourassa

Line No. 1 2 3		(1)	[2]	[3]	[4] Indicated Cost of
4 5		Dividend	Expected Dividend		Equity k≖Div Yld + g
6		Yield (D ₀ /P ₀) ¹	Yield (D ₁ /P ₀) ²	Growth (g)	(Cois 2+3)
7					
8	DCF - Past and Future Growth	3.02%	3.20%	5.94% ³	9.1%
9					
10	DCF - Future Growth	3.02%	3.20%	5.71%	8.9%
11					
12					
13	Average	3.02%	3.20%	5.82%	9.0%
14					
15	Median	3.02%	3.20%	5.82%	9.0%
16					
17					

¹ Spot Dividend Yield = D0/P0. See Rejoinder Schedule D-4.7.
² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

18

19 20

³ Growth rate (g). Average of Past and Future Growth. See Rejoinder Schedule D-4.4, column 7

⁴ Growth rate (g). Average of Analyst Estimates Future Growth. See Rejoinder Schedule D-4.6.

Utility Source, LLC Market Betas

Exhibit Rejoinder Schedule D-4.9 Witness: Bourassa

<u>C</u>	ompany	Beta (β)
1.	American States	0.70
2.	Aqua America	0.70
3.	California Water	0.70
4.	Connecticut Water	0.65
5.	Middlesex	0.70
6.	SJW Corp.	0.85
	Average	0.72

1 Value Line Investment Analyzer data (Aug 5, 2013)

Value Line investment Analyzer data (Aug 5, 2013)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a pariod of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Utility Source, LLC Forecasts of Long-Term Interest Rates

Exhibit Rejoinder Schedule D-4.10 Witness: Bourassa

Line <u>No.</u>							
1							
2							
3		Average					
4	Description	<u>Aug-14</u>	<u>2015</u>		<u> 2016</u>		<u>Average</u>
5	_	_		_			
6	Blue Chip Consensus Forecasts	3.20% ¹	4.10%	2	4.70%	2	4.40%
7							
8	Value Line ²	3.20% 1	3.90%	3	4.40%	3	4.20%
9							
10	Average						4.30%
11							
12							
13							

1 Federal Reserve Monthly Average 30 Year U.S. Treasury

³ Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury

² June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury

Utility Source, LLC Computation of Current Market Risk Premium

Exhibit Rejoinder Schedule D-4.11 Witness: Bourassa

		Computant	on or current ma	1 70	I KISK FIGHIO	166					Mileses Bayeses
Line											Witness: Bourassa
<u>No.</u> 1			Expected				Expected		Monthly Average		Market
2		Dividend	Dividend				Market		30 Year		Risk
3	Month	Yield (D _n /P _n) ¹	Yield (D./Pa)2	+	Growth (g)	*	Return (k)	-	Treasury Rate ⁴	=	Premium (MRP)
4	Feb	2.01%	2.21%	+	9.83%	=	12.04%	-	3.17%	=	8.87%
5	Mar	2.01%	2.20%	+	9.83%	=	12.04%		3.15%	=	8.88%
6	April	1.98%	2,16%	+	9.33%	=	11.49%	-	2.93%	=	8.56%
7	May	2.01%	2.20%	+	9.50%	=	11.70%	-	3.11%	=	8.59%
8	June	2.14%	2.34%	+	9.50%	=	11.84%	-	3.40%	=	8.44%
9	July	2.02%	2,21%	+	9.50%	=	11.71%	-	3.61%	=	8,10%
10	Aug	2.14%	2.34%	+	9.50%	=	11.84%		3.76%	=	8.08%
11	Sept	2.10%	2.30%	+	9.50%	=	11.80%	-	3.79%	=	8.01%
12	Oct	2.00%	2.19%	+	9.50%		11.69%	-	3.68%	=	8.01%
13	Nov	1.99%	2.18%	+	9.50%	=	11.68%	-	3.80%	=	7.88%
14	Dec 2013	1.93%	2.11%	+	9.50%	=	11.61%	-	3.89%	=	7.72%
15	Jan 2014	2.01%	2.21%	+	9.83%	=	12.04%	-	3.77%	=	8.27%
16	Feb	2.01%	2.20%	+	9.50%	=	11.70%		3.66%	#	8.04%
17	Mar	2.01%	2.20%	+	9.50%	=	11.70%	-	3.62%	=	8.08%
18	Apr	1.98%	2.16%	+	9.50%	=	11.66%	-	3.52%	=	8.14%
19	May	2.01%	2.20%	+	9.42%	=	11.62%	•	3.39%	=	8.23%
20	June	1.98%	2.16%	+	9.33%	=	11.50%	•	3.42%	=	8.08%
21	July	2.05%	2.24%	+	9.50%	=	11.74%	-	3.33%	=	8.41%
22	Aug	2.01%	2.20%	+	9.50%	=	11.70%	-	3.20%	=	8.50%
23	-										
24	Recommended	2.01%	2.20%	+	9.44%	#	11.65%	-	3.32%	=	8.33%
25											
26	Short-term Trends										
27	Recent Twelve Months Avg	2.01%	2.20%	+	9.51%	=	11.70%	•	3.59%	=	8.11%
28	Recent Nine Months Avg	2.00%	2.19%	+	9.51%	=	11.70%	-	3.53%	=	8.16%
29	Recent Six Months Avg	2.01%	2.19%	+	9.46%	=	11.65%	•	3.41%	=	8.24%
30	Recent Three Months Avg	2.01%	2.20%	+	9.44%	=	11.65%	-	3.32%	*	8.33%
31											

32

³⁰ Notes:

1 Median Dividend Yield (D₀/P₀) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data (monthly) - Value Line 1700 Stocks 31

³² Expected Dividend Yield (D₁/P₀) equals current average dividend yield (D₀/P₀) times one plus growth rate(g).

³³ Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.

⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

Utility Source, LLC Traditional Capital Asset Pricing Model (CAPM)

Exhibit Rejoinder Schedule D-4.12 Witness: Bourassa

Line										
No.		Rf¹		beta ²						
1		Ki	+	OCIA	×	RP _M		+	=	k
2										
3	Historical Market Risk Premium CAPM	4.30%	+	0.72	X	6.70%	3	+	=	9.1%
4										
5	Current Market Risk Premium CAPM	4.30%	+	0.72	x	8.33%	4	+	=	10.3%
6										
7	Average									9.7%
8										
9	Median									9.7%
10	1									
11										
12	1 Forecasts of long-term treesury yields. See Rejoinder Schodule D-4.10.									

12 13 14

15 16

³ Historical Market Risk Premium from (Rp) MorningStar SBBI 2014 Classic Yearbook Table 11-5 Long-Horizon ERP 1926-2013.

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rejoinder Schedule D-4.11.

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on Dull and Phelps Risk Premium Study Data

Exhibit Rejoinder Schedule D-4.13 Witness: Bourasse

·				_			Measur	es of	size				
							(Millions)						
			MV		Book			5	5 Yr Avg.		Total	5	Yr Avg.
Company	Symbol		Equity ¹		Equity ¹		MVIC1	Net	Income		Assets ²	6	BITDA ³
1 American States	AWR	\$	1,191	\$	492	\$	1,517	\$	45	\$	1,281	\$	141
2 Aqua America	WTR	3	4,195	\$	1,535	\$	5,663	\$	155	\$	4,859	5	430
3 California Water	CWT	\$	1,096	5	598	\$	1,522	\$	42	\$	1,996	S	146
4 Connecticut Water	CTWS	\$	359	\$	197	\$	534	\$	13	\$	579	\$	28
5 Middlesex	MSEX	\$	317	S	189	\$	447	\$	14	\$	562	\$	39
6 SJW Corp.	wuz	\$	544	\$	322	\$	879	\$	21	\$	1,087	\$	87
Utility Source, LLC	Proforma		NA	\$	3.7		NA	\$	(0.2)	\$	11.1	\$	0.4

¹ From Zacks Investment Research data

From Zecks Investment Research. From E-1 for subject utility.

Net Income. From Zecks Investment Research and Company ACC reports.

Net Income Data (\$ millions)				
	Company	Symbol		2013
American States		AWR	\$	62.
Aqua America		WTR	\$	205.0
Catifornia Water		CWT	\$	47.
Connecticut Water		CTWS	S	18.
Middlesov	· ·	MOEV	•	40

2012 54.0 \$ 197.0 \$ 49.0 \$ 14.0 \$ 14.0 \$ 22.0 \$ 2011 45.9 \$ 143.1 \$ 37.7 \$ 11.3 \$ 13.4 \$ 20.9 \$ 2010 33.2 \$ 124.0 \$ 37.7 \$ 9.8 \$ 14.3 \$ 24.4 \$ 29.5 \$ 104.4 \$ 40.6 \$ 10.2 \$ 10.0 \$ 15.2 \$ Average 45.1 154.7 42.4 12.7 13.7 21.2 62.7 \$
205.0 \$
47.3 \$
18.3 \$
16.6 \$
23.5 \$ SJW Corp. SJW Utility Source, LLC (0.13) (0.15) (D.19) (0.18) (0.15) \$ (0.2)

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

⁴ Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data (\$ millions)										
	ompany	Symbol	2013		2012	2011	2010	2009	1	Average
American States		AWR	161.	0 \$	154.0	\$ 133.3	\$ 134.4	\$ 122.6	\$	141.1
Aqua America		WTR :	424.	3 \$	439.0	\$ 397.8	\$ 473.2	\$ 415.2	\$	429.9
California Water		CWT 5	155.	0 \$	151.0	\$ 143.3	\$ 155.7	\$ 125.5	\$	146.1
Connecticut Water		CTWS 1	43.	4 \$	30.0	\$ 24.2	\$ 22.5	\$ 20.3	\$	28.1
Middlesex		MSEX	42.	1 \$	39.0	\$ 34.6	\$ 43.3	\$ 34.6	\$	38.7
SJW Corp.		SIM S	91.	4 \$	90.0	\$ 87.1	\$ 75.4	\$ 93.5	\$	87.5
Utility Source, LLC		1	(0.	0) \$	0.0	\$ (0.0)	(0.01)	0.02		0.42

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance EBITDA data for subject utility from E-1 and/or ACC reports

Utility Source, LLC COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD Based on *Duff and Phelps* Risk Premium Study Data

MRP_{m+s} Estimates Using Duff & Phelps 2014 Valuation Handbook data (Unlevered) Assumes 100% Equity and 0% debt Deta Smoothing with Regression Analysis Smoothed Premium (RP_{m+s}) = Constant + X Coefficients * Log(Relevent Metric)

+ X Coefficients * LoufRelevent Marric)

Rejoinder Schedule D-4.14 Witness: Bourassa

RP_{inveloceted} = RP_{invered} - W_dW_a*(β_u*β_d)*RP_{maket}
Where β_a = unlevered portfolio beta
β_d = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_e = percentage of equity in capital structure
RP_{invered} = levered realized risk premium

Utility Source, LLC

44* - her caucada or addith iti cabi								
RP _{levered} = levered realized risk p	remium	MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)	
Constant X Coefficient(s) Company American States Aqua America California Water Connecticut Water Middlesex		19.089%	16.046%	19.463%	13.763%	18.027%	15.306%	
X Coefficient(s)		-3.233%	-2.591%	-3.243%	-2.623%	-2.851%	-2.736%	
				MRP _{m/s} (i	unlevered)			
		MV	Book		5 Yr Avg.	Total	5 Yr Avg.	
Company	Symbol	Equity	Equity	MVIC	Net income	Assets	EBITOA	Average
1 American States	ÁWR	9.14%	9.07%	9.15%	9.43%	9.17%	9.43%	9.23%
2 Aqua America	WTR	7.38%	7.79%	7.29%	8.02%	7.52%	8.10%	7.68%
3 California Water	CWT	9.26%	8.85%	9.14%	9.49%	8.62%	9.39%	9.13%
4 Connecticut Water	CTWS	10.83%	10.10%	10.62%	10.87%	10.15%	11.35%	10.65%
5 Middlesex	MSEX	11.00%	10.15%	10.87%	10,78%	10.19%	10.96%	10.66%
6 SJW Corp.	w.c	10.24%	9.55%	9.92%	10.28%	9.37%	10.00%	9.89%
Average (unlevered)		9.64%	9.25%	9.50%	9.81%	9.17%	9.87%	9.54%

14.57%

NMF

15.04%

Utility Source, LLC COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD Based on *Oufl and Phelps* Risk Premium Study Data

Unlevered Portfilio Beta (from 2014 Duff & Phelps Valuation Handbook - Table C) Exhibit Rejoinder Schedule D-4.15 Witness: Bourassa

				Unlevered Portfolio Beta (β _u)								
Company	Symbol	(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average				
1 American States	AWR	0.94	0.96	0.95	0.95	0.97	0.95	0.95				
2 Aqua America	WTR	0.87	0.89	0.86	0.88	0.83	0.82	0.86				
3 California Water	CWT	0.98	0.96	0.95	0.95	0.94	0.96	0.96				
4 Connecticut Water	ctws	0.96	0.98	0.97	0.97	0.99	1.03	0.98				
5 Middlesex	MSEX	0.96	1.00	0.98	0.97	0.99	0.99	0.98				
6 SJW Corp.	ww	0.98	0.98	0.98	0.99	0.97	0.95	0.98				
Average		0.95	0.96	0.95	0.95	0.95	0.95	0.95				
Utility Source, LLC		NA.	0.98	NA	1.01	1.05	1.03	1.02				

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

MRP Estimates Using Duff & Phelps 2014 Valuation Handbook data (Relevered) Relevered Realized Risk Premium $RP_{retured} = RP_{unterced} + W_dW_a^*(\beta_u\beta_d)^*RP_{mathet}$ Where $\beta_u = unterced portfolio beta$ $\beta_d = debt beta, assumed to be 0.1 W_d = percentage of debt in capital structure <math display="block">W_e = percentage of debt in capital structure <math display="block">RP_{unterced} = unterced realized risk premium from Table 2 RP_{mathet} = general equity risk premium for the market since 1963.$

Exhibit Rejoinder Schedule D-4.16 Witness: Bourassa

		MRP _{mes} (Relevered)							
			MV	Book		5 Yr Avg.	Total	5 Yr Avg.	
Company	Symbol	W.W.	Equity	Equity	MVIC	Not Income	Assets	EBITDA	Average
1 American States	AWR	27.4%	10.27%	10.22%	10.29%	10.57%	10.33%	10.57%	10.37%
2 Aqua America	WTR	35.0%	8.70%	9.15%	8.60%	9.36%	8.77%	9.34%	8.98%
3 California Water	CWT	38.9%	10.94%	10.49%	10.76%	11.11%	10.22%	11.02%	10.76%
4 Connecticut Water	CTWS	48.7%	12.88%	12.20%	12.69%	12.94%	12.27%	13.56%	12.76%
5 Middlesex	MSEX	40.9%	12.72%	11.95%	12.63%	12.53%	11.97%	12.75%	12.42%
6 SJW Corp.	SJW	61.5%	12.90%	12.20%	12.57%	12.97%	11.99%	12.56%	12.53%
Average MRP (Relevered)		42.06%	11.40%	11.04%	11.26%	11.58%	10.93%	11.63%	11.31%
Utility Source, LLC		0.00%	NA	14.57%	NA	NMF	15.04%	16.34%	15.32%

Utility Source, LLC COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD Based on *Duff and Pholips* Risk Premium Study Data

Equity Risk Premium Adjustment and Other meterics used in Build-up Method

Exhibit Rejoinder Schedule D-4,17 Witness: Bourassa

[1] Estimate of Current Market Risk Premium (RP _{market}) [2] Risk Premium Assumed in Duff & Phelps Study (1963-2013) ¹ [3] Equity Risk Premium Adjustment ([1] - [2])	5.00% <<<< Current Duff and Pheips recommendation 4.90% 0.10%
[4] Average MRP (relevered) for publicly traded water companies (from Rejoinder Schedule D-4.16) [5] MRP (relevered) for publicly traded water companies (RP _{m+1}) [[3] + [4])	11.31% 11.41%
 [6] Equity Risk Premium Adjustment ([3]) [7] Average MRP (relevered) for subject utility company (from Table D-4.16) [8] MRP (relevered) for subject utility company (RP_{met}) ([6] + [7]) 	0.10%
[9] Industry Risk Premium (From Duff & Phelps for SIC 494 Water Supply Industry Exhibit 5-7) [10] Adjustment Factor to Industry Risk Premium ([2] / 6.98%) [11] Adjusted Industry Risk Premium (R ₄) ([9] x [10])	-4.24% 0.7184 -3.05%
[12] Risk Free Rate (R _i) ²	2.98%

¹ From Duff & Phelps 2014 Valuation Handbook.
² Yield on 20 Yr U.S. Treasury September 30, 2014 (Federal Reserve)

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on Duff and Phelps Risk Premium Study Data

Cost of Equity (COE) Estimate using Bulld-up Method

E(R_i) = R_i + RP_{m+1} + RP_i + RP_u

Where:

E(R_i) = Expected (indicated) rate of return

Rf = Risk-free rate of return. See Rejoinder Schedule D-4.17.

RPm+s = Market risk premium including size premium. See Rejoinder Schedule D-4.16.

RPi = Industry risk premium (adjusted). See Rejoinder Schedule D-4-17.

RP_u = Company-specific risk premium

Exhibit Rejoinder Schedule D-4.18 Witness: Bourassa

Publicly Trad	ed
Water	
Utilities	Utility Source, LLC
2.98%	2.98%
See Sch	ed. D-4.16
-3.05%	-3.05%
0.00%	0.00%
	Utilities 2.98% See Sch -3.05%

		indicated COE E(K)							
		MV	Book		5 Yr Avg.	Total	5 Yr Avg.		
Company	Symbol	Equity	Equity	MVIC	Net Income	Assets	EBITDA	Average	
1 American States	AWR	10.30%	10.26%	10.32%	10.60%	10.37%	10.60%	10.41%	
2 Aque America 3 California Water 4 Connecticut Water	WTR	8.73% 10.97% 12.91%	9.18% 10.52% 12.23%	8.63% 10.80% 12.73%	9.39% 11.15% 12.98%	8.80% 10.25% 12.31%	9.37% 11.06% 13.60%	9.02% 10.79%	
	CWT								
	CTWS							12.79%	
5 Middlesex	MSEX	12.76%	11.98%	12.66%	12.56%	12.00%	12.78%	12.48%	
6 SJW Corp.	SJW	12.93%	12.24%	12.60%	13.00%	12.03%	12.59%	12.57%	
Average COE estimate		11.44%	11.07%	11.29%	11,61%	10.96%	11.87%	11.34%	
Median COE Estimate		11.87%	11.25%	11.70%	11.85%	11.19%	11.83%	11.63%	
Utility Source, LLC		NA	14.60%	NA	NMF	15.08%	16.37%	15.35%	

Utility Source, LLC Docket No. WS-04235A-13-0331

THOMAS J. BOURASSA REBUTTAL TESTIMONY

November 7, 2014

EXHIBIT TJB-COC-RJ1

NEW REGULATORY FINANCE

Roger A. Morin, PhD

2006 PUBLIC UTILITIES REPORTS, INC. Vienna, Virginia

TABLE 15-1 EFFECT OF MARKET-TO-BOOK RATIO ON MARKET RETURN									
Situation 1 Situation 2 Situation 3									
1 Initial purchase price	\$25.00	\$50.00	\$100.00						
2 Initial book value	\$50.00	\$50.00	\$50.00						
3 Initial M/B	0.50	1.00	2.00						
4 DCF Return 10% = 5% + 5%	10.00%	10.00%	10.00%						
5 Dollar Return	\$5.00	\$5.00	\$5.00						
6 Dollar Dividends 5% Yield	\$1.25	\$2.50	\$5.00						
7 Dollar Growth 5% Growth	\$3.75	\$2.50	\$0.00						
8 Market Return	20.00%	10.00%	5.00%						

But what if investors expect an increase in the price/earnings ratio from 12.5 to 13.5? Then, the growth in value is from \$100 to \$114.48, or 13.5 times next year's earnings of \$8.48, for a total return of 18.5% (dividend yield of 4%, plus growth in value of 14.5%). The orthodox DCF model would indicate returns of 10%, whereas the investors' true expected return is 18.5%. Investor-expected returns are substantially understated whenever investors anticipate increases in relative market valuation, and conversely.

The third and perhaps most important reason for caution and skepticism is that application of the DCF model produces estimates of common equity cost that are consistent with investors' expected return only when stock price and book value are reasonably similar, that is, when the M/B is close to unity. As shown below, application of the standard DCF model to utility stocks understates the investor's expected return when the market-to-book (M/B) ratio-of a given stock exceeds unity. This was particularly relevant in the capital market environment of the 1990s and 2000s where utility stocks were trading at M/B ratios well above unity and have been for nearly two decades. The converse is also true, that is, the DCF model overstates the investor's return when the stock's M/B ratio is less than unity. The reason for the distortion is that the DCF market return is applied to a book value rate base by the regulator, that is, a utility's earnings are limited to earnings on a book value rate base.

The simple numerical illustration shown in Table 15-1 demonstrates the impact of M/B ratios on the DCF market return. The example shows the result of applying a market value cost rate to book value rate base under three different M/B scenarios. The three columns correspond to three M/B situations: the stock trades below, equal to, and above book value, respectively. The latter situation is noteworthy and representative of the capital market environment of the last two decades. As shown in the third column, the DCF cost rate of 10%, made up of a 5% dividend yield and a 5% growth rate, is applied to

Utility Source, LLC Docket No. WS-04235A-13-0331

THOMAS J. BOURASSA REBUTTAL TESTIMONY

November 7, 2014

EXHIBIT TJB-COC-RJ2

Equity and the Small-Stock Effect

The capital asset pricing model shows risk inherent in return on equity. But something goes wrong when it's used for small-sized companies.

oes the size of a company affect the rate of return it should earn? If smaller companies should earn a higher return than larger firms, then small utilities, because of their size, should be allowed to adjust the rates they charge to customers.

By far the most notable and welldocumented apparent anomaly in the stock market is the effect of company size on equity returns. The first study focusing on the impact that company size exerts on security returns was performed by Rolf W. Banz. Banz sorted New York Stock Exchange (NYSE) stocks into quintiles based on their market capitalization (price per share times number of shares outstanding), and calculated total returns for a value-weighted portfolio of the stocks in each quintile. His results indicate that returns for companies from the smallest quintile surpassed all other quintiles, as well as the Standard & Poor's 500 and other large stock indices. A number of other researchers have replicated Banz's work in other countries; nevertheless, a consensus has not yet been formed on why small stocks behave as they do.

One explanation for the higher returns is the lack of information on small companies. Investors must search more diligently for data. For small utilities, investors face additional obstacles, such as a smaller customer base, limited financial resources, and a lack of diversification across customers, energy sources, and geography. These obstacles imply a higher investor return.

The Flaw in CAPM

One of the more common cost of equity models used in practice today is the capital asset pricing model (CAPM). The CAPM describes the expected return on any company's stock as proportional to the amount of systematic risk an investor assumes. The traditional CAPM formula can be stated as:

 $R_{s} = [\beta_{s} \times RP] + R_{f}$

where:

R_s = expected return or cost of equity on the stock of company "s"

β = the beta of the stock of company "s"

RP = the expected equity risk premium

R_f = expected return on a riskless asset.

Table	1:1	The	Stze	Pre	ببراي	ı İm	CAPM
(By I	أأعما	le Pe	e e e e e		TIRE.	192	6-94)

Decile	Beta	Arithmetic Mean Return	Actual Return In Excess of Risidess Rate**	CAPM Return in Excess of Risidess Rate**	Size Premium (Return in Excess CAPM)
1	0.90	11.01%	5.88%	6.33%	-0.44%
2	1.04	13.09	7.97	7.34	0.63
3	1.09	13.83	8.71	7.70	1.01
4	1.13	14.44	9.32	7.98	1.33
5	1.17	15.50	10.38	8.22	2.16
6	1.19	15.45	10.33	8.38	1.95
7 [.]	1.24	15.92	10.79	8.75	2.05
8	1.29	16.84	11.72	9.05	2.67
ğ	1.36	17.83	12.71	9.57	3.14
10	1.47	21.98	16.86	10.33	6.53

"Belas are estimated from monthly returns in excess of the 26-year government band income return, January 1926-December 1994.
"Historical feldiess rate measured by the 60-year artifirmitic mean income return component of 20-year government bends.
Source: SBW 1995 (fembook

Table 2: CAPM vs. CAPM w/ Size Premium
(by Percentile for Electric, See, and Sendary Services Settles)

	CAPM	CAPM with Size Premium
90th Percentile	16.42%	18.92%
75th Percentile	12.56%	14.72%
Median	10.89%	12.58%
25th Percentile	9.86%	11.39%
10th Percentile	8.63%	10.65%

(Malabled by Market Confinitionies)

1.203	ed by Market Capit	CAPM with
	CAPM	Size Premium
Industry Composite Large Company	11.76%	12.33%
Composite Small Company	12.05%	12.07%
Composite	13.93%	17.95%

Source: Cost of Capital Quarterly '95 Yearbook by libbotson Associates' Note: Public utilities include electric, gas, and sanitary services companies.

Table 1 shows beta and risk premiums over the past 69 years for each decile of the NYSE. It shows that a hypothetical risk premium calculated under the CAPM fails to match the actual risk premium, shown by actual market returns. The shortfall in the CAPM return rises as company size decreases, suggesting a need to revise the CAPM.

The risk premium component in the actual returns (realized equity risk premium) is the return that compensates investors for taking on risk equal to the risk of the market as a whole (estimated by the 69-year arithmetic mean return on large company stocks, 12.2 percent, less the historical riskless rate). The risk premium in the CAPM returns is beta multiplied by the realized equity risk premium.

The smaller deciles show returns not fully explainable by the CAPM. The difference in risk premiums (realized versus CAPM) grows larger as one moves from the largest companies in decile 1 to the smallest in decile 10. The difference is especially pronounced for deciles 9 and 10, which contain the smallest companies.

Based on this analysis, we modify the CAPM formula to include a small-stock premium. The modified CAPM formula can be stated as follows:

$$R_s = [\beta_s \times RP] + R_f + SP$$

where:

SP = small-stock premium.

Because the small-stock premium can be identified by company size, the appropriate premium to add for any particular company will depend on its equity capitalization. For instance, a utility with a market capitalization of \$1 billion would require a small capitalization adjustment of approximately 1.3 percent over the traditional CAPM; at \$400 million, approximately 2.1 percent, and at only \$100 million, approximately 4 percent.

Again, these additions to the traditional CAPM represent an adjustment over and above any increase already provided to these smaller companies by having higher betas.

Implications for Smaller Utilities

These findings carry important ramifications for relatively small public utilities. Boosting the traditional CAPM return by a full 400 basis points for small utilities translates into a substantial premium over larger utilities.

Table 2 shows the results of an analysis of 202 utility companies that calculated cost of equity figures. Composites (arithmetic means) weighted by equity capitalization were also calculated for the largest and smallest 20 companies. The results show the impact size has on cost of equity.

For the traditional CAPM, the large-company composite shows a cost of equity of 12.05 percent; the small company composite, 13.93 percent. However, once the respective small capitalization premium is added in, the spread increases dramatically, to 12.07 and 17.95 percent, respectively. Clearly, the smaller the utility (in terms of equity capitalization), the larger the impact that size exerts on the expected return of that security.

Michael Annin, CFA, is a senior consultant with lbbotson Associates, specializing in business valuation and cost of capital analysis. He oversees the Cost of Capital Quarterly, a reference work on using cost of capital for company valuations.

ATTACEMENT 3

			·
1	Steve	Wene, No. 019630	
2	11	ES SELLERS & HENDRICKS LTD.	
2		N. Central Avenue, Suite 1100	
3	1 2	nix, Arizona 85004	
4	II`	-604-2189	
	1 1	e@law-msh.com	
5	Attori	neys for Utility Source, L.L.C.	
6		•	
7		BEFORE THE ARIZONA COR	PORATION COMMISSION
8			
		<u>IMISSIONERS</u>	
9	BOB	STUMP, CHAIRMAN Y PIERCE	
10		BURNS	
11	SUSA	AN BITTER SMITH	
	BKE	NDA BURNS	
12		ı	
13	IN T	HE MATTER OF THE APPLICATION	DOCKET NO: WS-04235A-13-0331
14	OF U	TILITY SOURCE, LLC, AN	DOCKET 110. WO 0 123371 13 0331
_	ARIZ	ONA CORPORATION, FOR A	•
15		ERMINATION OF THE FAIR VALUE IS UTILITY PLANTS AND	REJOINDER TESTIMONY
16	PROF	PERTY AND FOR INCREASES IN	OF LONNIE McCLEVE
17	ITS V	VATER AND WASTEWATER RATES	
۱ ۱		CHARGES FOR UTILITY SERVICE ED THEREON.	
18			
19			
20	Q.	Please state your name and your role	in this matter.
.1		Lonnie McCleve. I am an owner of Util	lity Source II C ("Company")
ı	Α.	Lonnie wecheve. I am an owner of our	inty source, LLC (Company).
2	Q.	Have you filed testimony in this case p	previously?
3		**	
24	A.	Yes.	
25	Q.	Has your testimony changed significate	ntly?
26	A.	No, and I adopt my earlier testimony her	rein.
27	Q.	What is the purpose of your rejoinder	testimony?
8		The second secon	and the GA CC and Ab in A constraint
- [Α.	1 am commenting on the non-financial is	ssues raised by Staff and the intervenors in

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27 28 Q.

their surrebuttal testimony.

- Please comment on the surrebuttal testimony of Staff's engineer regarding the enclosure around Well 2 and install a functioning gate.
- We seem to agree that the Company should be able to construct a cost-effective A. enclosure, whether that is a fence or a wall, provided it meets all of the regulatory requirements. Knowing that permitting may be required, which often takes quite some time for approval, the Company believes the deadline for filing proof of construction should be at least 120 days.
- Does the Company agree with Staff's recommendation regarding BMPs? Q.
- No. The Company maintains its position on BMPs. A.
- Q. Regarding Deep Well 4, does the Company agree with this recommendation?
- In surrebuttal, Staff explained that it wants the Commission to prohibit Utility Α. Source from selling the well at a profit and then requiring a developer to drill another well. There is no basis for this concern. Again, the Company has no intention of selling Deep Well 4. This well was drilled to serve Flagstaff Meadows III. The Company hopes that development occurs and Deep Well 4 is needed to meet the increased water demand.
- Does the Company agree with Staff's position in surrebuttal regarding a Q. developer paying for a new well?
- A. I believe so. Staff's surrebuttal essentially states that the Company can require a developer to pay for the construction of a new well if another well is reasonably necessary to meet water demand. This is consistent with the Company's position.
- 0. Does the Company agree with Staff's position in surrebuttal regarding fire

n 1

protection and water pressure?

A. No. Staff wants an engineering report on fire flow pressure during high water demand events, including the demand of the standpipe. Staff bases this recommendation on the fact that between 2011 and 2013, there were a few instances when pressure was not sufficient for fire flow. But the mechanical repairs to the pressure pump have been made, which was confirmed by the local fire chief. Admittedly, when a power outage occurs, the pressure pump will not work. The Company does not think an engineering report is necessary.

Nevertheless, if Staff would agree to increase the monthly minimum rates to cover the cost for the engineering report, then the Company would not oppose the recommendation. The Company does not know at this time how much such a report would cost because it does not know what Staff wants included in the report.

- Q. Discuss Staff's testimony regarding the standpipe that the Company has built.
- A. As stated previously, my partner, Gary Bulechek, was the point person on this project. The Company was selling bulk water from a fire hydrant primarily to contractors and commercial users. Coconino County staff approached the Company and said it would no longer allow the Company to operate in this manner and would need to build a loading station. Put another way, the Company built the new load station to comply with the County rules.

During this time, the Company was earning approximately \$3,500 a year from bulk water sales through the hydrant. The Company had no intention of making this an

expensive building project. But by the time the Company hired an engineer, followed his advice, and then had to make multiple improvements demanded by the County, we had spent around \$50,000 and the project was still not complete. Gary and I decided it made economic sense to finish the project so that the costs expended could be recovered over time. As far as revenues, the Company believes it will generate more revenue than the \$3,500 a year gained from sales through the fire hydrant. How much more is anyone's guess.

- Q. Please comment on Staff's position relating to the new standpipe operations.
- A. First, Staff argues that the Company is "downplaying" the financial impact of the standpipe operation. This is not true. However, the Company does not know how much revenue the standpipe will generate. Further, without any support, Staff claims that all of the revenue from the standpipe operation will flow directly to the owners. This is pure speculation and not even contemplated. The revenues will be treated like all other revenues and will be used to pay the expenses of running the Company.
- Q. When should the Company need to file another rate case?
- A. The Company has not changed its position.
- Q. In his testimony, Nielsen implied that the Company was endangering public health by selling bulk water through a fire hydrant. Is this true?
- A. No. The water being sold was drinking water, sold for construction purposes. I understand this is a common practice throughout Arizona. However, Coconino County requires a standpipe for such water sales.
- Q. Nielsen further claims that the Company built the fill station without ACC

-

permission, is that true?

- A. Yes, because ACC permission was not necessary.
- Q. Please comment on Nielsen's surrebuttal testimony relating to the ownership of the fire hydrants, wells, and other plant and records relating to the time when the utilities were operated by the property owners' association.
- A. Nielsen is raising issues that have been established by the Company, reviewed and litigated by Staff, and resolved by previous Commission decisions. To be clear, the Company owns the fire hydrants, the wells, and all of the plant included in its rate base. Admittedly, the Company did need to update the Arizona Department of Water Resources' well registry to show the Company owned the wells, which it has done. See enclosures.

As for the property owners' association records, those documents were turned over to the property owners' association approximately seven years ago. Apparently, Nielsen is attempting to establish that the property owners' association paid for the construction of the utilities, which is not true. In the previous rate case, the rate base for the Company was established and any contributions were identified at that time.

- Q. Please explain what the Company intends to do with Deep Well 4.
- A. Deep Well 4 was constructed to serve Flagstaff Meadows III. The Company intentionally held Deep Well 4 out of rate base for the sake of its customers. The Company intends to bring Deep Well 4 into service soon. This will help alleviate any concerns about the Company's ability to meet peak demands and redundancy.
- Q. Please explain the Company's office situation.

 A. When the Company was first established, the office was in my personal home. The Company paid the electric bill in lieu of rent. This was not a desirable situation, especially as the need for more space grew. While I still have an office in my home, we moved most of the operations to its current office site at 20525 E. Chandler Height in Queen Creek. This office was acquired as part of a development known as The Pecans. Through my business holdings, I am the declarant who controls the office.

This office is situated at the entrance of The Pecans subdivisions, so there is signage about lot sales, realtors, and other postings one would expect to see at a community gate house. Nonetheless, the Company uses the building to conduct business. I also use this address to receive my business mail, rather than having it come to my home address. Moreover, as explained in responses to data requests, we do allow brokers to use the conference room and meet potential buyers at the gate house office. The only expense Utility Source has for the use of this office is that it continues to pay the utility bill at my personal home, which is less than the Company would pay for renting office space and paying its utilities.

- Q. Please comment on Mary Ann Parry's role with the Company.
- A. She works full-time for the Company. Nielsen's claim that performing the office management for two regulated utilities can be done on a part-time basis is simply wrong. Her salary is reasonable for the work she performs.
- Q. What is your opinion regarding Nielsen's proposed adjustments relating to Mrs. Parry's salary, phone service, copiers, office supplies, power bills, and auto expense?

A. The Company's expert Mr. Bourassa presents the Company's position, but I believe Neilsen's adjustments are off-base. Nielsen is basing these adjustments on his opinion and conjecture.

- Q. Does this conclude your rejoinder testimony?
- A. Yes.



Arizona Department of Water Resources

P.O. Box 36020 Phoenix, Arizona 85067-6020 (602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

Keep this for your records



FEE \$30.00 per WELL

OWNSHIP (N/S)	RANGE (EM) 5E	SECTION 36	160 ACRE NW	40 ACRE SE	10 ACRE SW	воок	203	MAP 47	PARCEL 001H
		30	INVV	3 ⊏	300	<u></u>	۷03	<u>+</u> /	1 00111
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lew Well O							<u> </u>		
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AILING ADDRES						-			
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	EEK, AZ 85								
UNTACT PERSO	N NAME AND TITL								
ELEPHONE NUM	BER				FAX				
480) 540-5	656								
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	water lev							, , ,	• ,
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HEREBY	CERTIF	Y that the	above st	atements	s are true	e to th	e best o	of my knowledge ar	nd belief.
REPARED BY			·····		DA	TE			
ACHEL BA	ARRY				10	/23/201	14		
				·					
								Reference	DWR-2589
artinia e									
Ker Land								Amount	\$30.00
								Amount Date	\$30.00 10/23/2014



Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records



Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE \$30.00 per WELL

TOWNSHIP (N/S) RANGE (EM) SECTION 160 ACRE 40 ACRE 22N 5E 36 SW SW	10 ACRE BOOK	203 MAP	47	PARCEL 003A
	300	203	47	003A
New Well Owner				
FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL				
UTILITY SOURCE, LLC				
MAILING ADDRESS 20520 E. CHANDLER HEIGHTS ROAD				
CITY/STATE/ZIP			· · · · · · · · · · · · · · · · · · ·	
QUEEN CREEK, AZ 85142-				
CONTACT PERSON NAME AND TITLE				
TELEPHONE NUMBER	FAX	. 		
(480) 540-5656				
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Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

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Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE \$30.00 per WELL

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FEE \$30.00 per WELL

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Arizona Department of Water Resources

P.O. Box 36020 Phoenix, Arizona 85067-6020 (602) 771-8527 - www.azwater.gov

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WELL REGISTRATION NOMBERS

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FEE \$30.00 per WELL

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FEE \$30.00 per WELL

Location of Well TOWNSHIP (NS) RANGE (EM) SECTION 160 ACRE 40 ACRE 10 ACRE 800K MAP PARCEL New Well Owner FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL UTILITY SOURCE, LLC MAILING ADDRESS 20520 E. CHANDLER HEIGHTS ROAD CITY/STATE/ZIP QUEEN CREEK, AZ 85 142- CONTACT PERSON NAME AND TITLE TELEPHONE NUMBER (480) 540-5656 WELL ADDRESS
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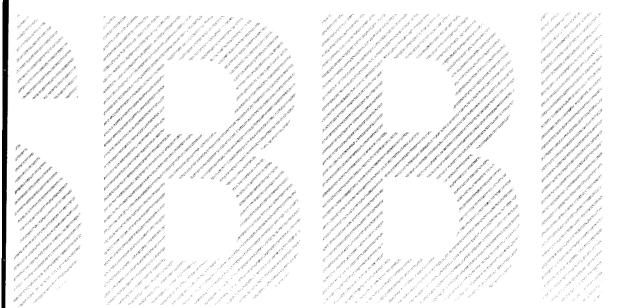
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2013 Valuation Yearbook

EXHIBIT

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Market Results for Stocks, Bonds, Bills, and Inflation 1926–2012





Chapter 3

The Buildup Method

Estimating the equity cost of capital is a difficult task to which much of modern financial theory is devoted. The equity cost of capital is equal to the expected rate of return for a firm's equity; this return includes all dividends plus any capital gains or losses. A properly specified cost of equity must include, if appropriate, provisions for flotation costs and certain market inefficiencies that might not be captured by standard methods for estimating equity rates of return.

There are several widely used and effective methods to estimate the equity cost of capital. The most common of these are: 1) the buildup method. 2) the capital asset pricing model (CAPM), 3) the discounted cash flow (DCF) method, 4) arbitrage pricing theory (APT), and 5) the Fama-French three factor model. This chapter will focus on the buildup method, while Chapter 4 will cover all other cost of equity models.

The Buildup Method for Cost of Equity Capital

The buildup method is an additive model in which the return on an asset is estimated as the sum of a risk-free rate and one or more risk premia. Each premium represents the reward an investor receives for taking on a specific risk. The building blocks are summed arithmetically to form an estimate of the cost of capital.

	Risk-Free Rate	
+	Equity Risk Premium	
+	Firm Size Premium	
+	?	
=	Cost of Equity	

Risk-Free Rate

Since any risky investment should return at least as much as the riskless asset, the risk-free rate is the starting point of the buildup method. The buildup method, the capital asset pricing model, and the Fama-French three factor model all implicitly assume the presence of a single riskless asset, that is, an asset perceived by all investors as having no risk. Selecting the appropriate risk-free rate is discussed in detail in the CAPM section of Chapter 4.

Risk Premia

There are several risk premia that can be used with the buildup method. Some are widely accepted, while others are more controversial. The equity risk premium is the most common; like the risk-free rate, it is a component of the capital asset pricing model and the Fama-French three factor model. The same equity risk premium can be used in each of these models. For additional information on the equity risk premium, see Chapter 5, which is devoted exclusively to this subject.

Small Stock Premium or Size Premium

A small stock premium or size premium may also be added in the buildup method to account for the additional risk inherent in small company stocks (for additional information regarding size premia, see Chapter 7, which is devoted to this subject). It is important to note, however, that size premia presented elsewhere in this publication have been adjusted for beta. In other words, the portion of the excess return on small stocks that can be explained by their higher betas is not included in the size premia. Some assert that a small stock premium that has not been adjusted for beta would be more appropriate for use in the buildup method. This non-beta-adjusted small stock premium can be calculated by subtracting the arithmetic mean of the large company stock return from the arithmetic mean of the small company stock return. Table 3-1 shows the various size premia on both a beta-adjusted and a non-beta-adjusted basis. Table 3-2 shows how the non-beta-adjusted small stock premia are calculated using the arithmetic mean returns from Table 2-1. Calculation of the beta-adjusted size premia is explained in detail in Chapter 7.

Table 3-1: Size Premia on a Beta-Adjusted versus Non-Beta-Adjusted Basis

	Beta-	Non-Beta-	
	Adjusted	Adjusted Small Stock	
	Size		
	Premia	Premia	
	(%)	(%)	
Mid-Cap	1.1	1.9	
Low-Cap	1.8	3.4	
Micro-Cap	3.8	6.2	
Small Company Stocks	3.0	4.7	

Data from 1926-2012.

Table 3-2: Derivation of Non-Beta Adjusted Small Stock Premia

	Small Company Stock Arith- metic Mean Return (%)		Large Company Stock Arith- metic Mean Return (%)		Non-Beta- Adjusted Small Stock Premia (%)	
Mid-Cap	13.7	_	11.8	=	1.9	
Low-Cap	15.2	-	11.8	=	3.4	
Micro-Cap	18.0	_	11.8	=	6.2	
Small Company Stocks	16.5	_	11.8	=	4.7	

1926-2012

The problem with using a non-beta-adjusted small stock premium is that in doing so one assumes that the company being valued has the same systematic risk (or beta) as the portfolio of small stocks used in the calculation of the size premium. This ignores much of the information that we have regarding market returns. Primarily, different industries tend to have different levels of systematic risk. For example, companies within health services industries tend to have less systematic risk than the market as a whole. Since the beta-adjusted size premium isolates the excess return due to size, it can be applied to a company without making any assumptions regarding the company's systematic risk.

Suppose we wish to calculate the cost of equity for a small electric utility company falling within the micro-cap size group by using the buildup method. Based on our industry knowledge, we know that the electric utility industry tends to exhibit less risk than the market as a whole. We can calculate the cost of equity with either a beta-adjusted size premium or a non-beta-adjusted size premium as follows:

$$k_s = r_f + ERP + SP_s = 2.4\% + 6.7\% + 3.8\% = 12.9\%$$
 or $k_s = r_f + ERP + SSP_s = 2.4\% + 6.7\% + 6.2\% = 15.3\%$

where:

 k_s = the cost of equity for company s;

r_f = the expected return of the riskless asset;

ERP = the expected equity risk premium, or the amount by which investors expect the future return on equities to exceed that on the riskless asset;

SP_s = the expected beta-adjusted size premium for company **s** based on the firm's equity market capitalization; and

SSP_s = the expected non-beta-adjusted small stock premium for company s based on the firm's equity market capitalization. The first calculation assumes that the company is neither more nor less risky than the market as a whole. The second calculation, however, assumes that the risk of the company is the same as the micro-cap portfolio as a whole. This poses a problem. The micro-cap portfolio is riskier than the market, but the electric utility industry is less risky than the market as a whole. Therefore, in this example, using the non-beta-adjusted size premium may overstate the cost of equity. Since the beta-adjusted size premium assumes that beta is equal to one, the buildup method may still overstate the cost of equity. We know that the electric utility industry exhibits less risk than the market and should therefore exhibit a lower return. Further adjustments for industry risk are necessary.

Industry Premia

One common element appraisers often add to the buildup method is an industry risk premium. Traditionally, the appraiser looks at aspects and characteristics of the industry in which the subject company participates to determine the magnitude of the industry risk premium. A major problem with this process in the past has been the qualitative nature of the analysis. The magnitude of the industry premium was often left to the professional opinion of the appraiser instead of a more quantitative methodology.

Ibbotson developed an industry premium methodology that appraisers can now reference and cite in their appraisal reports. This methodology relies on the full information beta estimation process outlined in Chapter 6, Beta Estimation Methodologies. The full information beta estimation process includes the proportionate risk of all companies that participate in a given industry.

To make it through the screening process, a company must have at least 36 months of return data available, have sales greater than \$1,000,000 in the most recent year, and have a market capitalization of at least \$10,000 in the most recent month. At the industry level, only those industries that have at least 5 participants and have an aggregate beta between 0 and 3 are considered. Our industry risk premium estimation methodology uses the following equation:

 $IRP_i = (RI_i \times ERP) - ERP$

where:

IRP_i = the expected industry risk premium for industry i, or the amount by which investors expect the future return of the industry to exceed that of the market as a whole;

 RI_i = the risk index for industry i; and

ERP = the expected equity risk premium.

The equity risk premium figure used in this estimation process is the long-horizon expected equity risk premium outlined in Appendix C. For an industry with a risk index of 1, the expected industry risk premium will be 0, for those with a risk index less than one, the expected industry risk premium is negative, and for those with a risk index greater than 1, the expected industry risk premium is positive.

For example, if an investor were looking at a company that has the same risk as the market, (remembering that we use the S&P 500 as the market benchmark), the risk index, by definition, would be equal to 1, and the industry risk premium would be calculated as follows:

$$IRP = (RI_1 \times ERP) - ERP$$

$$IRP = (1 \times 6.7) - 6.7 = 0$$

An **IRP** of 0 implies that the industry has the same risk as the market.

If an investor were studying an industry that has more risk than the market, the risk index would be greater than 1, e.g. 1.4. The industry risk premium would be calculated in the same fashion:

$$IRP = (1.4 \times 6.7) - 6.7 = 2.7$$

An **IRP** greater than 0 implies that the industry is riskier than the market.

And finally, if an investor were examining an industry that has less risk than the market, the risk index would be less than 1, e.g. 0.7, and calculation of the industry risk premium would be as follows:

$$IRP = (0.7 \times 6.7) - 6.7 = -2.0$$

An **IRP** less than 0 implies that the industry is less risky than the market.

The industry risk premium estimates can be found in Table 3-5 at the end of this chapter and should be added to the risk-free rate, equity risk premium, and size premium as follows to determine a cost of equity estimate:

$$k_s = r_f + ERP + SP_s + IRP_s$$

where all of the variables are as given above and IRP_s is the appropriate expected industry risk premium for company \mathbf{s} . Table 3-5 also presents the number of companies included in each estimate. For a complete list of companies used to calculate each industry risk premia estimate, visit http://corporate.morningstar.com/IRP and download the Industry Premia Company List Report.

Common Misconceptions and Questions

A concern of some analysts is that the introduction of an industry risk premium in addition to a size premium in the buildup method is a form of double counting. It is not. Size premia measure excess return over what would be predicted by CAPM. In other words, size premia measure that part of return not reflected by beta. An industry risk premium, on the other hand, measures how risky the industry is in relation to the market as a whole, regardless of size.

For example, consider two companies, one a large chain of 10,000 gas stations, the other family-owned, single-location gas station. If there were a major disruption in oil refining capability, both of these businesses would have exposure to this industry risk even after taking into consideration adjustments for their respective size. In the case of our two gas station businesses, one large, one small, the size premia and the industry premia are measuring completely different kinds of risk.

As of December 2012, we published a total of 456 industry risk premia. Of these, 288 were positive and 168 were negative, with a median value of 1.35 percent and an average value of 1.43 percent.

 $IRP_i = (RI_i \times ERP) - ERP$

where:

IRP_i = the expected industry risk premium for industry i, or the amount by which investors expect the future return of the industry to exceed that of the market as a whole:

 RI_i = the risk index for industry i; and

ERP = the expected equity risk premium.

The equity risk premium figure used in this estimation process is the long-horizon expected equity risk premium outlined in Appendix C. For an industry with a risk index of 1, the expected industry risk premium will be 0, for those with a risk index less than one, the expected industry risk premium is negative, and for those with a risk index greater than 1, the expected industry risk premium is positive.

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An **IRP** of 0 implies that the industry has the same risk as the market.

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 $IRP = (1.4 \times 6.7) - 6.7 = 2.7$

An **IRP** greater than 0 implies that the industry is riskier than the market.

And finally, if an investor were examining an industry that has less risk than the market, the risk index would be less than 1, e.g. 0.7, and calculation of the industry risk premium would be as follows:

 $IRP = (0.7 \times 6.7) - 6.7 = -2.0$

An IRP less than 0 implies that the industry is less risky than the market.

The industry risk premium estimates can be found in Table 3-5 at the end of this chapter and should be added to the risk-free rate, equity risk premium, and size premium as follows to determine a cost of equity estimate:

 $k_s = r_f + ERP + SP_s + IRP_s$

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A concern of some analysts is that the introduction of an industry risk premium in addition to a size premium in the buildup method is a form of double counting. It is not. Size premia measure excess return over what would be predicted by CAPM. In other words, size premia measure that part of return not reflected by beta. An industry risk premium, on the other hand, measures how risky the industry is in relation to the market as a whole, regardless of size.

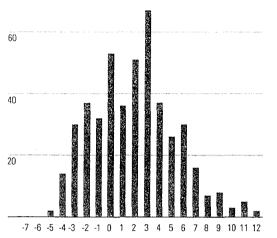
For example, consider two companies, one a large chain of 10,000 gas stations, the other family-owned, single-location gas station. If there were a major disruption in oil refining capability, both of these businesses would have exposure to this industry risk even after taking into consideration adjustments for their respective size. In the case of our two gas station businesses, one large, one small, the size premia and the industry premia are measuring completely different kinds of risk.

As of December 2012, we published a total of 456 industry risk premia. Of these, 288 were positive and 168 were negative, with a median value of 1.35 percent and an average value of 1.43 percent.

The distribution of these premia is shown in Graph 3-1:

Graph 3-1: Industry Risk Premia Distribution

80 Number of Companies



Range of IRP Values (%)

Data as of December 2012

Starting with the 2005 Valuation Edition Yearbook, the industry risk premia table was expanded to include four-digit SIC codes. The four-digit SIC codes that had the same number of companies as their corresponding three-digit SIC codes were removed. Similarly, three-digit SIC codes that had the same number of companies as the corresponding two-digit SIC codes were removed from this edition. For example, if SIC code 4911 and 491 had the same number of companies, then the companies included in SIC 4911 were also included in 491. Displaying the industry risk premium for SIC 4911 would not reveal any information not already revealed in SIC 491, and therefore SIC 4911 should not be included in the result.

Please note that the size premium to use should be the beta-adjusted size premium found in Appendix C or Table 7-5, and not the small stock premium, which is the simple difference in returns of large and small company stocks. The small stock premium is meant for use by security analysts in constructing an expected return for a small stock benchmark when forecasting (an input to mean variance optimization). The size premium, on the other hand, is intended for use in the construction of a forward-looking cost of equity estimate appropriate to discounting future cash flows. Using the small stock premium in conjunction with the industry risk premium will most likely overestimate the cost of equity. The simple difference between large and small company returns makes the assumption

that the systematic risk of the company is the same as the risk of the small company portfolio. The industry risk premium presented here is therefore a better measure of the appropriate systematic risk to apply.

Other Building Blocks

Other building blocks that have been used with this approach are minority discounts, control premia, and a key person discount. Use of these discounts and premia is more controversial, primarily because it is difficult to quantify their size; generally, the magnitude of the premia or discount is set. In addition, these premia do not necessarily represent rewards an investor receives for taking on a specific risk. For instance, does having a majority owner increase or decrease the risk of the business? Most would agree that the risk of a business does not change with ownership.

In some cases, however, a controlling owner may have influence on decisions that affect the risk of a business. Quantifying the effect of this controlling party in terms of a premium is not easily accomplished. Unlike other risk premia, a control premium is not readily measurable. An additional complication is that it is possible for some of these additional factors to already be present as part of the size premia.

In attempting to account for controlling interests or key people, it may be preferable to include these items when projecting cash flows, rather than making arbitrary adjustments to the discount rate. A probability weight can be assigned to the expected future cash flows based on the influence of these factors under various scenarios. From this probability distribution, the expected cash flow can be determined. By discounting these expected cash flows at a pure discount rate, one can achieve a cleaner analysis.

Estimating the Cost of Equity Using the Data Presented in this Book: Buildup Method

Due to the vast amount of data presented in this publication, the need for a reference that makes it easy to find all of the relevant data to estimate the cost of equity arose. Through the following examples, you will see how to use this book to estimate the cost of equity with the current data set as well as for any prior year using the buildup method. For similar examples using the CAPM method, refer to Chapter 4. Table numbers and alternatives are also provided to make your search easy.

Example Using Current Data

Develop a cost of equity estimate for a company operating in SIC Code 36, the Electronic and Other Electrical Equipment industry, with a market capitalization of \$275 million.

Table 3-3: Buildup Method Cost of Equity Example Estimate Current Data

			Current	Table
	Components		Estimates	Reference
	Riskless Rate		2.41	Appendix C
+	Equity Risk Premium	+	6.70	Appendix C
+	Industry Risk Premium	+	1.84	Table 3-5
+	Size Premium	+	3.81	Appendix C
	Cost of Equity Estimate		14.76	

Year-end 2012

Table 3-3 illustrates the estimation of the cost of equity using current data and the buildup method. From Appendix C, select the yield on the riskless asset. This is the current yield on a government security or the market's current forecast of the riskless rate for the term on the security. Since we are looking to estimate the cost of equity for the entire firm, and the firm is a going concern; we should choose the long-term U.S. Treasury coupon bond yield of 2.41 percent. This yield can also be found in Table 4-1.

Again, from Appendix C, the long horizon equity risk premium of 6.70 percent should be used.

The industry premium of 1.84 percent can be found in Table 3-5 for SIC Code 36, the Electronic and Other Electrical Equipment industry.

The company falls within the micro-cap category based on the figures in Appendix C or Table 7-2, so the appropriate size premia is 3.81 percent. Alternatively, one could use the decile analysis found in Appendix C and Chapter 7, Table 7-5, to determine the appropriate size premium. In addition to size premia estimates for mid—, low—, and micro-cap companies, Appendix C and Table 7-5 contain estimates by decile. Due to the magnitude of difference between deciles, especially in the smallest deciles, it may be appropriate to use the size premium for the corresponding decile. In this example, the company we are analyzing falls within decile 9 based on the figures found in Appendix C and Table 7-2. Therefore, an alternative size premium would be 2.70 percent, the size premium for decile 9.

Example Estimating the Cost of Equity for a Prior Year

Develop a cost of equity estimate for the same company as of 1996. The company operates in SIC Code 36, the Electronic and Other Electrical Equipment industry, with a market capitalization of \$186 million as of December 30, 1996.

Table 3-4: Buildup Method Cost of Equity Example Estimate Prior Year Data

			1996	Table
	Components		Estimates	Reference
	Riskless Rate		6.7	Appendix B-9
+	Equity Risk Premium	+	7.5	Appendix A-1
+	Industry Risk Premium	+	NA	
+	Size Premium	+	3.4	Appendix A-6
	Cost of Equity Estimate		17.6	

Year-end 1996

Table 3-4 illustrates the estimation of the cost of equity using data from 1996 and the buildup method. From Appendix B, Table B-9, select the yield on the riskless asset, the long-term U.S. Treasury coupon bond yield, for year-end 1996 of 6.7 percent.

From Appendix A, Table A-1, select the long horizon equity risk premium with starting date 1926 and ending date 1996, 7.5 percent. To find a value from Appendix A, select a beginning date across the top of the page. These tables span six pages each, so you will have to find the appropriate page. Once you find the beginning date, scroll down the first column to find the appropriate ending date. The number contained at the intersection of the beginning date 1926 and the ending date 1996, is the average value over that period.

Since Ibbotson did not calculate industry premia in 1996, this estimate is not available. In 1996, the company fell within the micro-cap category based on the figures in Table 7-3. From Appendix A, Table A-6, select the micro-cap size premium with starting date 1926 and ending date 1996, 3.4 percent. Please note that the omission of the industry premium results in an estimate that is lower than that of the CAPM model. An adjustment, either positive or negative, to account for industry risk may be applied. However, as stated above, Ibbotson did not provide a statistically based estimate for industry risk premia in years prior to 2000.